# Tecnotree

## Company report

**09/15/2022**

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Inderes corporate customer

This report is a summary translation of the report “Rahapuun sato vielä korjaamatta” published on 09/15/2022 at 7:40 am.

# Fruit of the money tree yet to be harvested

Over the last few years, Tecnotree has sealed its return from a company in crisis to a profitable growth company. However, this growth has tied up significant working capital in the form of receivables, and in the coming years the company will need to demonstrate a sustained improvement in its cash flow profile. At the same time, the company is struggling with a number of external challenges, such as high cost inflation and economic uncertainty affecting its customer base. Despite the elevated risks and the weaker profitability estimates for next year than in recent years, the valuation of the stock looks attractive (2023e: EV/EBIT 8x and P/E 12x). Thus, we reiterate our Accumulate recommendation, but with the estimate revisions made in the report, we lower the target price to EUR 0.65 (was EUR 0.80).

### IT solutions provider focused on the digital transformation of operators

Tecnotree is a global IT solutions provider focused on serving telecom operators. The company offers its customers cloud-based BSS systems that enable them to manage their products, customers, invoicing and digitalize their business processes. In addition to operators, the company aims to expand its offering to other industry verticals through its business platform for building digital marketplaces (Moments) and its fintech platform (DiWa). Tecnotree operates in the global OSS/BSS market (size ca. USD 50 billion), which is expected to grow at a CAGR of just over 10% in the medium term. The main drivers of this growth are the transformation of operators' operating models from traditional communications solution providers to more holistic digital service providers and the cloud transformation of system solutions. The importance of long-term customer relationships is underlined in a competitive environment, where we estimate that sustainable technological competitive advantages are difficult to create, and the switching costs are high due to the business-critical nature of the solutions.

### Risk reduction through an improving cash flow profile as a key short-term value driver for the stock

Tecnotree's turnaround from a company in crisis to a profitable growth company has been impressive in recent years. However, the return to growth has again highlighted structural weaknesses in the company's business model and geographical positioning. Due to the strong commitment of working capital, the company's cash flow has been well below the strong earnings level reported in recent years. In our view, the inflated receivables on the balance sheet (Q2'22: around 93% of revenue) already raise the risk profile. However, Tecnotree isn't currently concerned about the growth in receivables, but considers them to be strategic investments that have won significant new customers, which enable new long-term recurring revenue streams. We understand that going forward, the company's focus will again shift more from growth to cash flow, and the receivables situation should start to ease within the next 12 months. The key to the company's investment story is therefore to monitor the receivables and the recovery of the cash flow profile in the coming years.

### High expected return as a trade-off for risk

With our lowered forecasts, we expect Tecnotree's near-term profitability (2022e-2023e EBIT%: ~24%) to be under clear pressure from growth investments, strong cost inflation and unfavorable currency developments. With our estimates for 2022-2023, the valuation is still moderate with EV/EBIT multiples of 9x-8x and P/E multiples of 13x-12x. In 2024, the corresponding multiples are 5x and 9x, which we consider already very low given the company's growth and profitability potential. Our DCF model and longer-term scenario analysis also indicate a low valuation. At the same time, however, the risks associated with the economic situation and cash flow repatriation weigh on an acceptable valuation. Nevertheless, we see the risk/return ratio at current valuations as attractive.

## Recommendation

**Accumulate**
(previous Accumulate)

**0.65 EUR**
(previous EUR 0.80)

**Share price:**
0.54


## Key figures

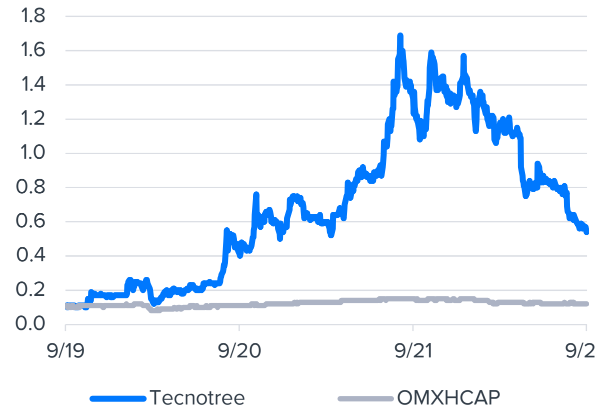
| | 2021 | 2022e | 2023e | 2024e |
|---|---|---|---|---|
| **Revenue** | 64.2 | 69.3 | 74.6 | 83.0 |
| growth-% | 22% | 8% | 8% | 11% |
| **EBIT adj.** | 23.7 | 16.9 | 18.3 | 23.6 |
| EBIT-% adj. | 36.9 % | 24.3 % | 24.5 % | 28.5 % |
| **Net Income** | 18.4 | 12.5 | 14.0 | 18.3 |
| **EPS (adj.)** | 0.06 | 0.04 | 0.05 | 0.06 |
| | | | | |
| **P/E (adj.)** | 25.0 | 13.3 | 11.9 | 9.1 |
| **P/B** | 6.8 | 2.1 | 1.8 | 1.5 |
| **P/FCF** | neg. | neg. | 10.8 | 8.8 |
| **EV/EBIT (adj.)** | 18.7 | 9.1 | 7.6 | 5.1 |
| **EV/EBITDA** | 17.5 | 7.5 | 6.2 | 4.2 |
| **EV/S** | 6.9 | 2.2 | 1.9 | 1.5 |

Source: Inderes

## Guidance (Unchanged)

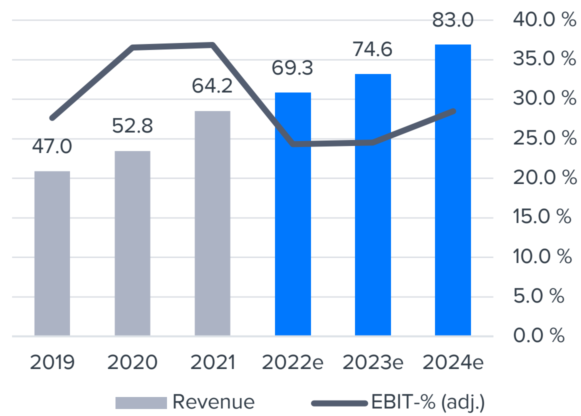
The full year revenue in 2022 is expected to be 5-10% higher and the full year EBIT in 2022 is expected to be lower compared to 2021.

## Share price



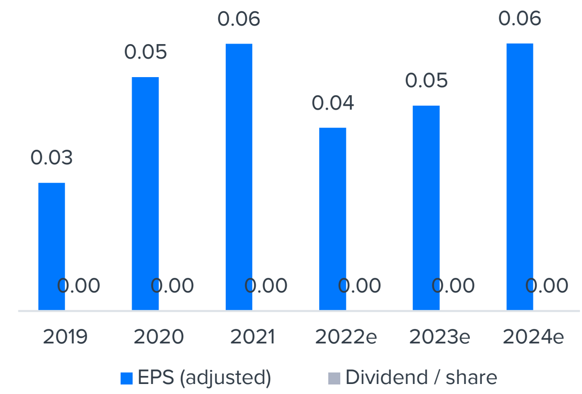

Source: Millistream Market Data AB

## Revenue and EBIT %




Source: Inderes

## EPS and dividend




Source: Inderes

## Value drivers

- Industry's organic drivers are strong and longer-term growth outlook is good
- The company’s business model is scalable and cost efficient
- Increasing recurring income flow
- Product portfolio technologically competent

## Risk factors

- Risks related to receivables and cash flow repatriation
- Customer portfolio's structure concentrated at top level
- Failure in product development work and reading the industry
- Weakening of a cost-efficient operating model
- Some cyclicality in operators’ investments
- Political and legislative threats in emerging countries

| Valuation | 2022e | 2023e | 2024e |
|---|---|---|---|
| **Share price** | 0.54 | 0.54 | 0.54 |
| **Number of shares, millions** | 310.5 | 310.5 | 310.5 |
| **Market cap** | 167 | 167 | 167 |
| **EV** | 154 | 139 | 121 |
| **P/E (adj.)** | 13.3 | 11.9 | 9.1 |
| **P/E** | 13.3 | 11.9 | 9.1 |
| **P/FCF** | neg. | 10.8 | 8.8 |
| **P/B** | 2.1 | 1.8 | 1.5 |
| **P/S** | 2.4 | 2.2 | 2.0 |
| **EV/Sales** | 2.2 | 1.9 | 1.5 |
| **EV/EBITDA** | 7.5 | 6.2 | 4.2 |
| **EV/EBIT (adj.)** | 9.1 | 7.6 | 5.1 |
| **Payout ratio (%)** | 0.0 % | 0.0 % | 0.0 % |
| **Dividend yield-%** | 0.0 % | 0.0 % | 0.0 % |

Source: Inderes

# Contents

# Tecnotree in brief

Tecnotree is an internationally operating IT solution supplier that focuses on serving telecom operators

**1978**
Year of establishment

**2000**
IPO

**15%**
Average net sales growth in 2019-2021

**59%**
Average adjusted operating profit growth in 2019 to 2021

**64.2 MEUR**
Net sales 2021

**23.7 MEUR** **(36.9% of net sales)**
Adjusted operating profit 2021

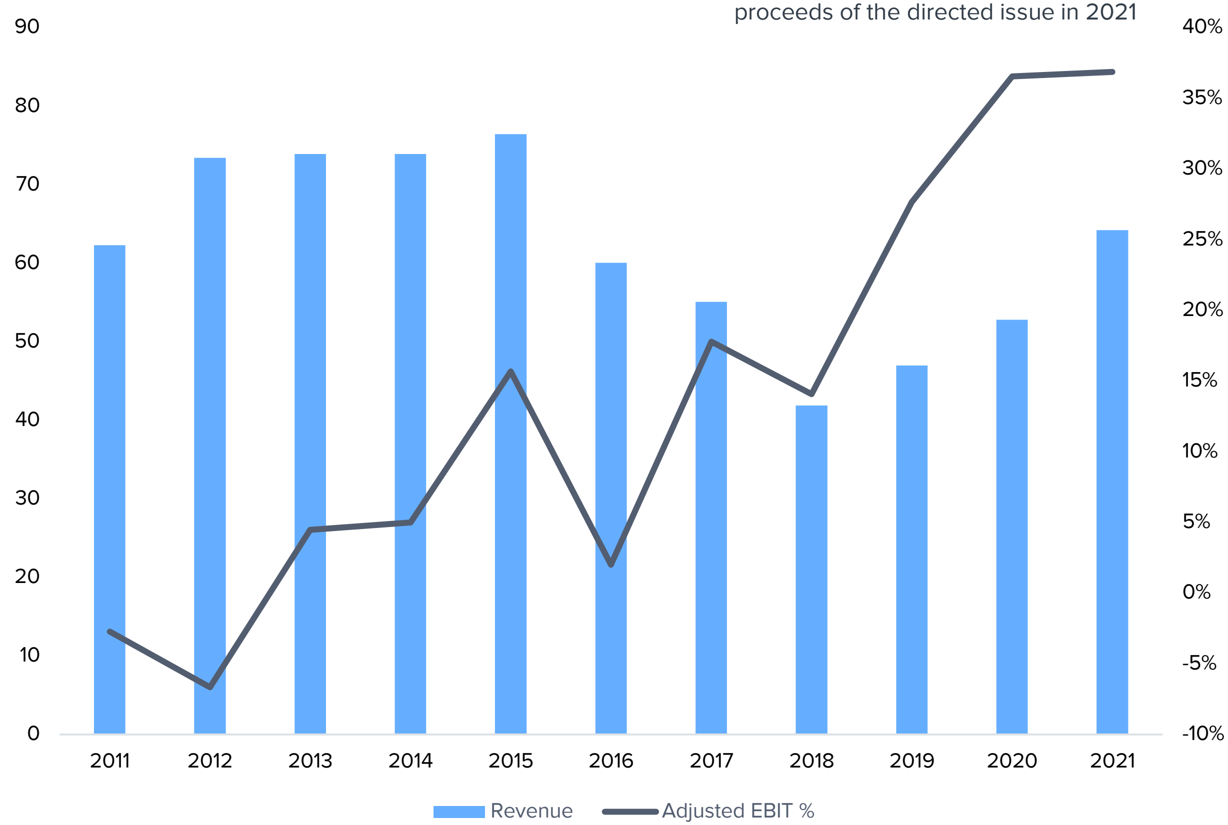
**778**
Personnel at the end of Q2'22

**2011-2017**

- In 2011 to 2016 several project risks materialized and led to financial difficulties
- Old VAS business decreases
- Successful investments in product development and business productization are behind current performance
- Work to improve structural efficiency begins

**2018-2021**

- Company successfully continues to improve structural efficiency and earnings development is strong
- BSS solutions prove their competitiveness and net sales and order book return to growth
- Withholding tax burden eased
- The restructuring is be completed by paying off the restructuring debt with the proceeds of the directed issue in 2021




Source: Tecnotree, Inderes

# Company description and business model 1/5

## Company description

### Solution supplier for telecom operators

Tecnotree is an internationally operating IT solution supplier that focuses on serving telecom operators. To its customers, Tecnotree offers cloud- and license-based systems to manage current products, customers, and invoicing, to digitize the underlaying processes, and to raise the value experienced by the customer. Tecnotree has long-standing customer relationships and its products often play an important role in telecom operators' digital business transformation. A concrete example is that with the company's solutions customers can create digital marketplaces and various micro services in their operations. This enables offering more individual and flexible service packages. Tecnotree is headquartered in Espoo. The company employed 778 people at the end of Q2'22, most of whom work in India.

### BSS Suite 5 platform - the spearhead of the product portfolio

The spearhead of Tecnotree's offering is the Digital BSS Suite 5 service platform, which consists of several different digital BSS (Business Support System) solutions that cover virtually all of the customer's core processes. The company's product portfolio covers all key business management systems and their life cycle stages for telecom operators. In general, the main functionalities of BSS solutions include product, customer, revenue stream and order management solutions. The company's products are not dependent on telecom operators' own network technologies, which increases the competitiveness of the solutions. To our undestanding, Tecnotree's current solutions can be adapted to other industry verticals (e.g. the financial sector) with reasonable investments, which will allow the company to explore business opportunities outside the telecom operator space in the longer term.

### Moments and DiWa

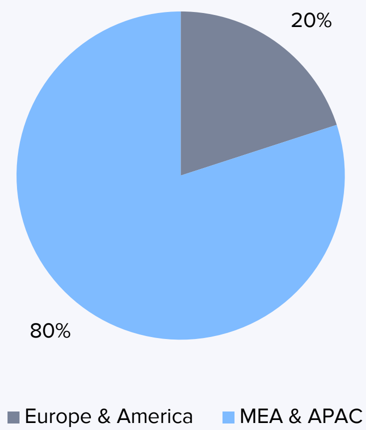
In addition to BSS solutions for telecom operators, Tecnotree has developed new solutions to extend its offering to non-operator verticals. Currently, these new solutions include Moments and DiWa. These solutions work on the so-called B2B2C business model, where the aim is to connect B2B and B2C players to find new business opportunities that were previously unavailable. The revenue streams generated by Moments and DiWa are transaction-based and therefore highly scalable.

The products will allow the company to expand further into the platform business, which can be highly profitable at best. We consider these new openings as interesting growth opportunities, but their full potential is still difficult to see, and we aren't yet relying on a significant breakthrough in our estimates. We believe that the revenue from new solutions is still very small at this stage. However, we believe that these new openings will increase Tecnotree's longer-term value creation potential.

Tecnotree

- Decades old operative history and deep understanding of customers' businesses
- From the customer's perspective, the solutions are business-critical
- Cloud-based service platform based on open-source code is competitive
- Customer relationships with largest customers have survived hard times
- The company has transformed from a project house more clearly to a software product house

**Geographical net sales distribution 2021**




Source: Tecnotree, Inderes

# Company description and business model 2/5

Designed to connect service providers and create new marketplaces, the Moments platform aims to attract and serve players in sectors such as education, sports, entertainment and healthcare. The Moments platform allows a service provider to create digital marketplaces and offer their services through Tecnotree's extensive operator network in locations they would otherwise not have access to. The company has already signed two contracts for the delivery of the Moments platform. One was for the Dubai Sports Council, which uses the Moments platform to streamline infrastructure and processes for sporting events. This agreement was an important opening to verticals outside the telecom operators. The second agreement is with MTN Nigeria and includes pre-integrated gaming, sports, entertainment, education and health services.

Tecnotree's DiWa (Digital Wallet) is a fintech platform that, like Moments, is offered as an additional service alongside the company's other products. The company provides the DiWa platform to operators, banks and fintech players. Through DiWa, end-users can, for example, pay bills and manage their accounts. The platform already serves more than 5 million end-users worldwide. The potential of the platform is particularly high in Africa, where a large part of the population doesn't have a bank account yet.

### Major customers are large and net sales mainly come from emerging regions

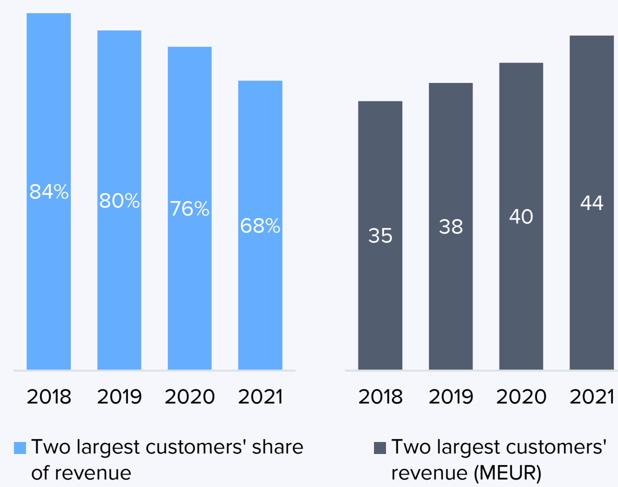
In 2021, Tecnotree's net sales were EUR 64.2 million and an adjusted EBIT was EUR 23.7 million (EBIT-% 37%). Geographically, Tecnotree reports its net sales through two regions, Europe and America (2021: 20% of net sales) and MEA & APAC (80% of net sales). Within MEA & APAC, the Middle East and the more developed parts of Africa are particularly important regions for the company. In Europe and the Americas, Tecnotree's main markets are in Central and South America. A significant part of net sales come in US dollars.

Tecnotree's customer portfolio is highly concentrated, with the two largest customers accounting for 68% of net sales in 2021. However, the figure was 84% in 2018. In recent years, the company has succeeded in winning new customers and thus diversifying its customer portfolio. We estimate that the company's biggest customers are the South African MTN Group and the Mexican Claro (part of the América Móvil group). Both groups are huge and leading players on their respective continents. In addition, there are dozens of local operators that operate under these two groups. As a result, Tecnotree's actual customer portfolio is more diversified than reported and the company has more than 90 customers in total.

In our view, Tecnotree's customer risk is offset by the business-critical role of the solutions it offers, which increases the switching costs faced by the customer and improves customer retention. However, the same factors make new customer acquisition slower. In the short term, the company's own direction will be strongly driven by the outlook and investment activity of its largest customers, as we believe it will be difficult to significantly expand the customer base in the short term. In the big picture, we see the customer structure as an element that raises the risk profile, despite the solid positions and relationship drivers of our largest customers.

### Tecnotree's customers*

*Over 90 telecoms operators as customers and > 1 billion end-users in total




Source: Tecnotree, Inderes

# Tecnotree's product portfolio

## B2B Solutions (core of product portfolio)

### Digital BSS Suite 5 Service Platform

**Income flow management**

- Focus on invoicing, charging and support functions
- Extremely business critical element
- Role also as data collector

**Customer management**

- Creation of new services
- Improving customer satisfaction and hold at the core
- Most crucial piece in terms of operator's value creation

**Product management**

- Supports the customer's product planning and development
- Enables integration of different product areas and makes the operator's pricing process more efficient

**Order management**

- Enables integration of different service areas
- Improves the efficiency of process flows and collects data
- Lowers the cost per customer

**Option 1: license + supply (one-off revenue) and maintenance (recurring revenue)**

**Option 2: SaaS model (recurring revenue based on the number of subscribers, users and transactions)**

## B2B2C Solutions (new transaction-based solutions)

### Moments

- A business platform that allows you to create digital trading platforms and ecosystems by combining different types of service providers
- The Moments platform aims to attract, for example, education, sports, entertainment, and health sectors
- Currently, partnership agreements with the Dubai Sports Council (an important opening in the non-operator verticals) and MTN Nigeria

### Digital Wallet (DiWa)

- Fintech platform that enables "wallet management" solutions for consumers and businesses
- Consolidation of banking services on a single platform (e.g. money transfers, accounts, deposits and customer KYC)

**Transaction-based recurring revenue**

Source: Inderes

# Company description and business model 3/5

## Business model

### Based on different revenue streams

Tecnotree's earnings model is built on a few income streams that are different by nature. The company itself breaks down its net sales reporting into its own licenses, third-party software and hardware, deliveries and maintenance and management services. Of these, own and third-party licenses sales are recognized at a given point in time, while maintenance and management services and delivery are invoiced over time according to the work performed.

Revenue from license sales is usually recognized immediately after the sale and the delivery is within about 12 months. The license plus delivery is typically around half the value of the entire order. In addition to this, a 2–3-year maintenance contract is usually agreed, with the second part of the subscription being paid during the period. After this period, Tecnotree aims to renew the maintenance and service contracts. We estimate that the revenues from license sales is, with certain limits, tied to the number of customers the operators have, which enables growth with the operators without actual new sales.

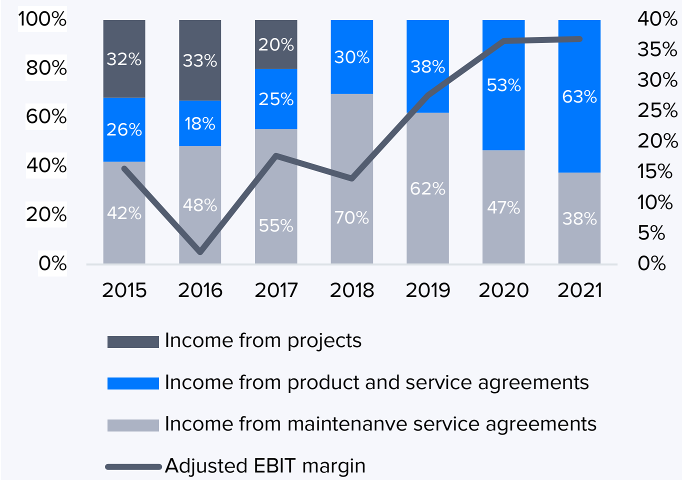
Ongoing maintenance and management services accounted for roughly 37% of Tecnotree's net sales in 2021. In the longer term, we believe the company will seek to move away from the current licensing model towards a more scalable SaaS model, and the ongoing cloud transformation in the industry offers good opportunities for this. However, the transformation to a pure SaaS house will take time, and it's not yet justified to look at the company through this operating model or its potential.

In addition to revenue streams related to the sale, deployment and support of its own product solutions, the company also has some activities related to the sale of third-party software and hardware. However, from Tecnotree's point of view, the economic importance of this activity isn't significant (2021: 0.6 MEUR). From a strategic point of view, however, cooperation with third parties is justified, as it allows the company to partner with players with greater resources. In the long term, this can offer the company opportunities that might have proven to be too difficult to achieve on its own.

### Product development is a critical function

Tecnotree's business model is quite typical for a software company, as the company develops, sells and maintains its own product solutions. Product development is a critical function for the company, as its competitiveness relies heavily on the technological capabilities of its products. Success in product development is therefore also critical for customer acquisition and retention, as well as for creating longer-term shareholder value. Product development is continuous in nature, and we believe that it focuses on both close dialogue with customers and anticipation of the industry and its trends. In the long term, the success of product development naturally depends on the company's ability to recruit and retain skilled developers.

**Development of net sales distribution and adjusted EBIT**




**Development of product development investments**


Source: Inderes

# Company description and business model 4/5

At present, Tecnotree is investing heavily in the development of Moments and DiWa solutions to expand its non-operator target audience. In addition, the company's product development focuses on the transformation of BSS solutions to the SaaS model.

Tecnotree has historically been quite cost-efficient in its product development, as over the past five years, product development investments have averaged only about 11% of net sales. This is partly due to the company's expert resources being located in lower-cost countries (such as India).

From the operator's point of view, Tecnotree's BSS solutions play a very important role, as without them it’s practically impossible to manage the business. With BSS solutions, customers also aim to increase the cost-efficiency of their operations and make them more responsive across the board (e.g. shorter time to market for new services). We believe this will be more pronounced for Tecnotree's customers, which operate in a fast-growing markets with relatively low ARPU (average revenue per user). Due to the business-critical nature of BBS solutions, decision-making is strongly linked to strategic choices. In our view, the technological capabilities of the product and a good understanding of the customer's business are more important competitive factors than price. We believe that this makes Tecnotree's own value chain position reasonable in the big picture.

The company's long operational history and improved financial performance in recent years are, in our view, at least good indications of the value of the company's proprietary technology and thus its mastery of product development.

### Sales cycles are usually lengthy

In line with the business-critical role of Tecnotree's product solutions, we estimate that the company's sales approach will be consultative and solution-oriented. This emphasizes an in-depth understanding of the customer's business as part of an effective sales process. The company's sales are mainly direct sales.

We estimate that the company's sales cycles are relatively long and also that new customers typically start with smaller solutions and later progress to bigger sales. In the sales process, it often takes time to identify customer needs and customers are often offered demo solutions during the process. Long sales cycles are reflected in customers' own risk management (e.g. ensuring seamless process flow), as business-critical systems are usually replaced/upgraded in phases. Large operators typically also have several strategic system suppliers. When the sales work is successful, customer relationships are often very long-lasting.

### Cost structure is scalable

Tecnotree's cost structure is very typical for a software company and a people-intensive business. By far the largest part of the company's costs are fixed, of which we estimate that most of them are related to the product development and sales organization. The majority of personnel (2021: 77%) work in India, where the wages are much lower than in the West. In our view, this gives the company a certain relative advantage on the cost lines compared to Western competitors whose staff work in higher cost areas. However, we don’t consider this to be a sustainable competitive advantage, given India's faster wage inflation than that of Western countries and the ease with which the model can be copied.

Tecnotree also has high gross margins, which is typical for a software company (2021: 97%). A fixed cost structure and a business with high gross margins means that net sales growth scales well to the bottom line. However, new sales and deliveries often require some up-front investment, and thus fixed costs often swell with growth. The downside of high gross margins is that when net sales are low, this is also directly reflected negatively in the profit.

# Company description and business model 5/5

### A wealth of working capital tied up in the balance sheet

From a capital commitment perspective, Tecnotree's operations are highly dependent on working capital and growth ties up a large amount of working capital (receivables). The company recognizes project revenue under other receivables and trade receivables are recognized when the customer has been invoiced. Historically, the company has committed net working capital of around 25-50% of net sales, while in 2021 net working capital rose to as much as 65%. The situation has further deteriorated during 2022, with net working capital at the end of H1'22 at 72% of the previous 12 months' net sales.

The working capital commitment is explained both by the high relative bargaining power of Tecnotree's largest customers (i.e. long payment terms) and the focus of the business on countries with politically and economically challenging conditions. The company has also recently invested heavily in winning new customers, often having to offer long payment terms in the process. This was highlighted as the company went through debt restructuring while trying to win new customers and increase its order book. In tenders, the company has preferred to offer long payment periods rather than discounts, so increasing working capital has been a conscious investment on the company's part. Now that the company has won several new Tier 1 customers, we believe the situation has partially changed. With good customer references, the company will no longer offer as long payment periods as in recent years.

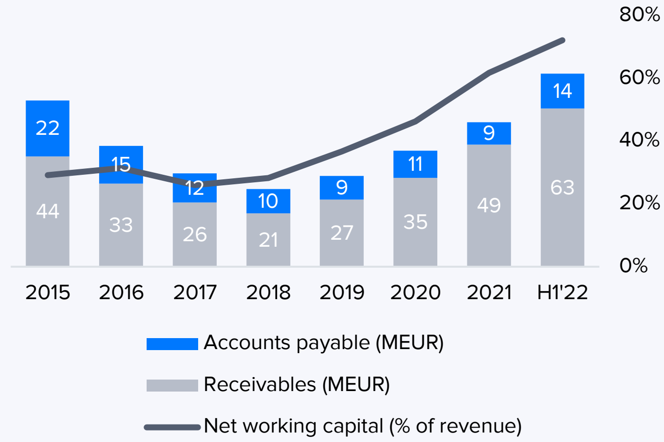
In any case, the increase in receivables already represents a significant concentration of risk on Tecnotree's balance sheet. In a bad scenario, the working capital commitment could also affect the profit level if the risks associated with long-dated receivables materialize and the company would have to write them down. However, the risks related to trade receivables are significantly more diversified over several customers than in the years of the crisis, when the problems were mainly caused by receivables from a single large project.

The slowdown in repatriation is also partly due to the availability of dollars in emerging countries, as the dollar is historically strong. To our understanding, there are no project challenges or disputes associated with the increase in receivables. Even if there are no risks associated with the repatriation of receivables, high working capital intensity creates problems for the pursuit of growth, as even a small increase in volume ties up significant amounts of capital. This puts a strain on the company's cash flow and thus also affects the allocation of capital.

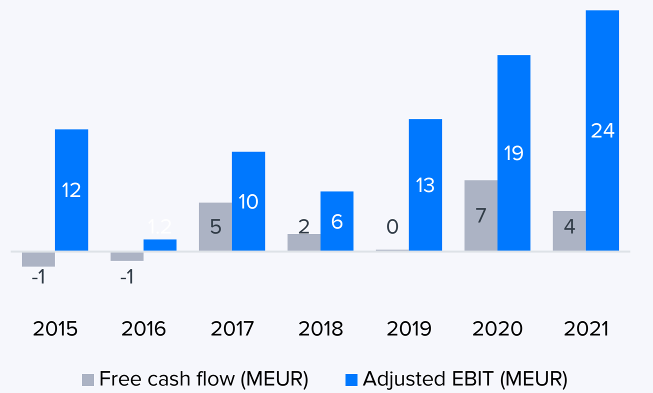
### Restructuring program completed

Tecnotree ran into severe financial difficulties in the early 2010s as a result of the different structure of the business and the realization of project risks, and ultimately entered a restructuring program in 2016. The program was originally due to run until 2025 but ended early in autumn 2021 when the company paid off its restructuring debt with funds raised through a directed issue. Tecnotree now has no interest-bearing debt on its balance sheet, which is reassuring given the challenges it currently faces in repatriating cash flow. In addition, we understand that for some customers the restructuring program was a threshold issue for cooperation, and thus the program no longer acts as a barrier to winning new business.

**Commitment and development of working capital**




**Development of free cash flow and adjusted EBIT**



# Investment profile 1/2

### Tecnotree is a pure growth company

The past five years have been eventful for Tecnotree, as the company has transformed itself from a company in crisis to a profitable growth company through a successful turnaround. Over the past few years, Tecnotree has made structural changes to its business, put its foundations in order and achieved a convincing turnaround. From a longer-term value creation perspective, investing in growth for Tecnotree is a sensible choice, given the earnings leverage associated with growth. However, the return to growth has again highlighted a structural weakness in the company's business model, working capital commitment and weak capacity for cash flow generation. In recent years, trade receivables have increased significantly, clearly raising the company's risk profile. In the coming years, monitoring the repayment of receivables and the recovery of the cash flow profile will be key to the company's investment story.

### Strengths and value drivers

**Technologically competent solutions and long customer relationships:** We believe that Tecnotree's solutions are technologically capable, as evidenced by the company's long operational history. The company also has long-standing customer relationships that have endured through difficult times. We believe that these are tangible demonstrations of the business-criticality of the company's products and the delivery on customer promises.

**Cost-effective approach**: During the crisis years, the company has honed its operating model to be quite cost-effective and a culture of cost control has developed within the company. Good organic growth in recent years has not required the company to significantly inflate its cost lines, which has made growth very profitable. Cost-efficiency can be seen as a strength of the company and gives the company room for maneuver, e.g., to make the necessary growth investments that new customers now require.

**Organic growth:** The primary drivers of Tecnotree's organic growth are telecom operators' infra and software investments. These, in turn, are driven by the revolution of the operators' business models where operators are gradually changing to marketplaces and distributor of digital services. In addition, certain megatrends, such as the advance of digitalization and urbanization, also play a role. Tecnotree's largest customers are capable of growth and investment, and in recent years the company has also been successful in winning new customers. Taking this into account, the prospects for organic growth are good, which is also reflected in the company's strong order book. In addition to operators, the company is looking for new customers in other verticals, of which it already has preliminary indications. In addition to good growth opportunities, this would lower the company's risk profile. Thus, success in the company's new growth projects would be crucial for long-term value creation.

**Business model transformation:** Over the past few years, Tecnotree's business model has been transformed from old-generation project work to mainly cloud-based license sales. In our view, the next step is a gradual shift towards a SaaS model. With this revolution, the company's income flows could become more scalable, predictable, and less risky. The SaaS model also typically facilitates the nature of software upgrades, as customers no longer need to use several different software versions. In the long term, this should bring greater cost-efficiency and at the same time strengthen earnings potential. However, the company is still in the early stages of this transformation.

### Weaknesses and risk factors

**Risks related to receivables and weak cash flow:** The company's growth ties up significant working capital, particularly through an increase in trade receivables. A major reason for this is that the company offers its customers long payment terms when selling its solutions. The cash flow is thus structurally weaker than the reported profit level. In recent years, trade receivables have again ballooned to very high levels and cash repatriation risks have again reared their head. This has also been reflected in a decline in investor confidence in the stock market, as problems with receivables and poor cash flow have taken Tecnotree into a crisis before. If receivables had to be written down, this would put a dent in both the company's earnings and its balance sheet. This would also undermine confidence in the company's ability to generate cash flow in the longer term. However, Tecnotree isn't currently concerned about the growth in receivables, but considers them to be strategic investments that have won significant new customers. According to the company, the receivables situation should start to ease within the next 12 months.

# Investment profile 2/2

**Operators' IT infrastructure and cyclicality of their investments:** Operators' current IT systems have been built on old, expensive, rather cumbersome and several different software. Even though the technological debt is already quite high in our view, replacing old systems is technologically a time consuming and expensive exercise. Although we believe that the technical debt is already reasonably high, replacing old systems is technically time-consuming and expensive. We estimate that in the short to medium term, this may slow down the pace of change for operators, thus slowing down the demand for Tecnotree solutions. In the long term, however, we believe that the risk is limited, as at some point the operators' technical debt will have to be wound down. By their very nature, operators' investments are somewhat cyclical, which can be seen as a risk for Tecnotree.

**Customer risks:** Tecnotree's two largest customers account for 68% of net sales. Thus, the company's customer portfolio is highly concentrated even though the biggest customers include income flow from several local operators. Losing one of the main customers or a considerable decrease in their business would, however, be a massive setback and make a big dent in the company's net sales and result. The customer relationships with these operators are, however, long, in addition to which the business criticality of the solutions Tecnotree delivers creates somewhat of a buffer against customer risks.

**Changes in the competitive field and/or position:** Tecnotree is a small player in the global and multi-player OSS/BSS market. Even though we believe Tecnotree's solutions to be competitive there are several other credible options available. If active competitors with greater resources decide to strengthen their presence in areas that are critical to Tecnotree, its competitive position may be weakened. With the cloud transformation, the threshold to enter the market also lowers, which partly increases the threat from new competitors. The competitive landscape may also become more difficult as a result of mergers between operators or competitors.

**Failure in product development work:** Continued investment and success in product development is critical to Tecnotree's long-term performance. Failure in these investments would have a direct impact on the company's current customer relationships, new sales, competitive position and, as a sum of these factors, on its longer-term value creation potential. The company must also be able to continuously anticipate the business trends of its customers and direct its investments accordingly. We believe that the company has a good historical track record in this area, which of course is no guarantee for the future.

**Risks of emerging markets:** Working capital risks are also partly related to Tecnotree's strategic choice to operate in politically and economically volatile regions. In addition to the risks associated with the repatriation of receivables, local tax laws also pose challenges for the company, e.g., through withholding taxes. Thus, cash flow repatriation isn't always entirely in the company's hands. In addition, emerging market economies are generally quite sensitive to macroeconomic factors, such as changes in the dollar exchange rate. In general, the predictability of developments in the company's operating environment is not the highest.

## SWOT analysis

### Strengths

- Good industry and technology expertise (e.g. 5G readiness)
- Extensive cloud-based product portfolio
- Agile operating model
- Competitive price point
- Long customer relationships and decades long operative history

### Weaknesses

- Biggest customers' share of net sales is huge
- The resources of a small player are limited in many directions
- Working capital commitment burdens cash flow considerably
- Many variables on emerging areas that are out of the company's hands

### Opportunities

- Long-term organic growth outlook is good
- Business model transformation raises earnings potential and lowers risk levels
- Verticals outside the operator field
- Potential acquisition target for a larger player

### Threats

- Risks related to receivables
- Decrease in business from a significant customer or losing them completely
- Structural changes in the competitive field
- Failure in product development
- Materialization of political risks

Source: Inderes

# Investment profile

1. **Organic growth outlook is good**
2. **Cost-effective business model**
3. **Expansion to verticals outside the operator field**
4. **Customer distribution is highly concentrated**
5. **Growth ties up working capital and cash flow is chronically weaker than earnings**

## Potential

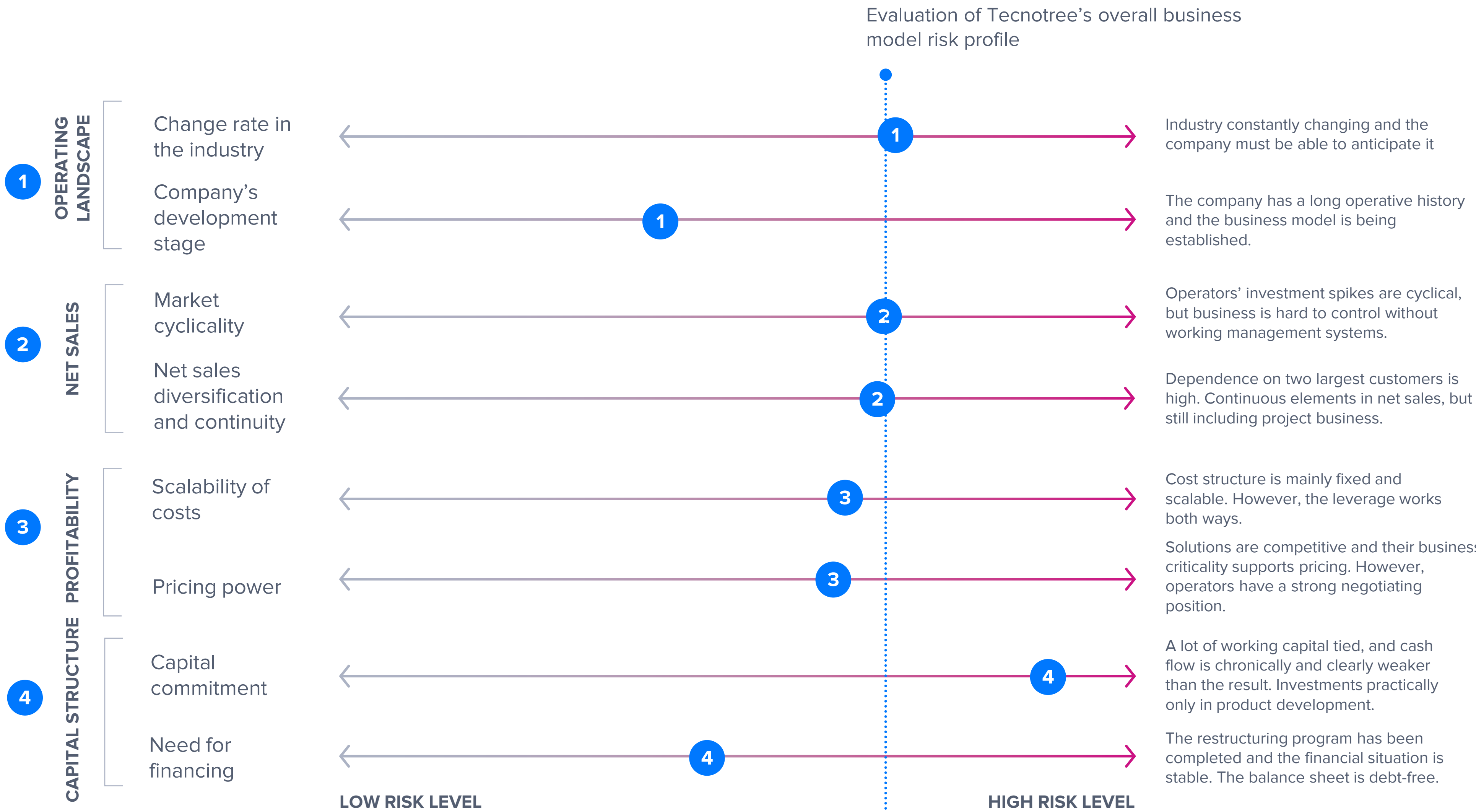
- Tecnotree's industry expertise and technological competitiveness is solid
- Organic drivers in the sector are strong and the overall growth outlook is good
- Agile, flexible and cost-effective operating model
- In the long term, growth on new geographical areas and outside the operator field
- Future growth in the share of recurring revenue streams

## Risks

- Operators' investments are cyclical and customer distribution is highly concentrated
- Growth ties up a lot of working capital
- Risks related to trade receivables
- Failure in product development work
- Political and geopolitical risks of emerging markets are high

Source: Inderes

# Risk profile of the business model




Source: Inderes

# Industry and competitive landscape 1/4

## The total market is large and growing

Tecnotree is a globally operating supplier of turnkey BSS solutions. The entire industry has typically been examined so that the market for business support software or OSS solutions (Operations Support Systems) has been added next to BSS solutions. OSS solutions focus on operations management, such as network management and planning in the case of operators. In turn, BSS solutions focus on running the business and activities within the organization. In our view, the relevant target market for Tecnotree is justified from the perspective of the OSS/BSS market as a whole, even though the company itself is positioned purely in the BSS world and within it, so far, still practically only in the operator field. Overall, the market consists of actual system investments and related operating and support services.

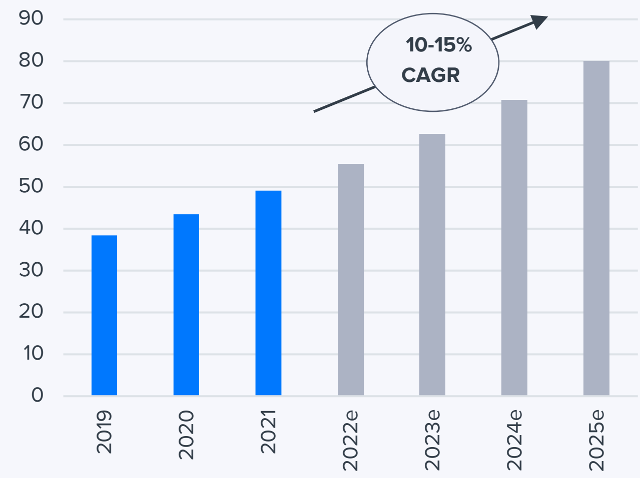
According to various market research companies, the size of the global OSS/BSS market was slightly under USD 50 billion in 2021. In our view, BSS operations is the more dominant slice of this cake even though it's difficult to accurately divide the market into OSS and BSS market shares. This is because there is considerable overlapping between the markets examined both from the demand and supply side.

By vertical, the telecoms sector is by far the largest in the market. Other significant sectors are, for example, the financial and health care sectors. For Tecnotree, we believe that the underlying market is huge relative to the size of the company, and we don't see it as a constraint on the company's growth.

Various market research companies have estimated the OSS/BSS market to grow at a strong annual rate of 10-15% in the coming years. Market growth therefore offers Tecnotree good growth opportunities and protection against growing competition. However, in the short term, we expect the weakening macro environment to put a brake on the market's growth outlook, with growth likely to remain below the level indicated by market surveys over the next 12 months.

Geographically, growth is expected to be fastest in emerging economies, with a lower technological starting point and thus a relatively faster pace of digitalization. To our understanding, the requirements of the leading operators in these areas on management systems are high. This is explained by the fact that ARPUs in the regions are typically very low, and operators' own performance requires a high customer mass and therefore a scalable and flexible business management system. In this light, we believe that Tecnotree's geographic positioning in emerging markets is good. In our view, the structure of the company's customer portfolio is also a reflection of the competitiveness of the company's technology, in line with the high technical standards and long-standing customer relationships in the region.

OSS/BSS market (USD bn)




Source: Allied Market Research, Transparency Market Research

# Industry and competitive landscape 2/4

### The market structure is fragmented

The supply-side structure of the sector is quite fragmented. The range of players in the market is very broad, with product companies specializing in specific segments, product companies with a broad product portfolio (companies in several verticals) and numerous smaller players specializing in the local market (incl. IT service houses). In addition, customers' own IT departments, large global network companies and multinational systems integrators operate in the market. In total, we estimate that there are hundreds of companies operating in some way in the OSS/BSS market.

The polarization of the industry is reflected in the fact that the major players, e.g., Amdocs, Ericsson, Huawei, Oracle and CSG have a combined market share of around half of the market, according to various estimates. In our view, this is especially explained by the fact that in the old on-premise world, large resources were a key factor that defined success. Especially leading operators have tried to improve the competitiveness of their operations with highly tailored solutions and thus, primarily favored large companies with good delivery ability as their strategic partners. This has created and strengthened the scale-based (e.g. tailoring ability) competitive advantages of players with huge resources. However, with the ongoing cloud transformation, this traditional dynamic is to some extent changing, which we believe offers attractive growth opportunities for small and agile players like Tecnotree.

Due to the fragmented structure of the industry, the market has also historically seen a reasonably high number of mergers and acquisitions. The typical logic of consolidation has been that larger players have complemented their technical and sectoral expertise by acquiring smaller and more centralized companies. One factor that we believe has affected consolidation is also the concentrated structure of the operator market. This has resulted in several and varied BSS solutions within operators, which, in turn, has made consolidation a natural option for BSS suppliers to strengthen their customer relationships and improve their growth opportunities. We believe that consolidation will continue to be to some extent the driving force behind the structure of the industry, although the ongoing cloud transformation will lower the entry barriers and the dynamics of the industry (e.g. larger size doesn’t automatically bring competitive advantage) will change somewhat as a result. All in all, the market is still rather fragmented, and this will not change significantly, at least not in the near future.

### Two clear key drivers for growth

The growth of the OSS/BSS market is mainly driven by the transformation of operators' business models and the cloud transformation of system solutions. Market growth is also driven by the trend towards outsourcing of OSS/BSS solutions and the increased demand from small and medium-sized enterprises for OSS/BSS systems to enhance their own operations. In addition, wider megatrends such as urbanization and digitalization (e.g. 5G) have an impact on the background.

### Main drivers for the market:

**Transformation of operators' business models**

➜ From offering standard communication solutions to more diversified customer-oriented services

**Cloud transformation**

➜ Moving from slow-moving on-premise systems to more flexible cloud services

### Other drivers:

**Outsourcing**

➜ Operators are increasingly looking to outsource the development of their support systems

**SMEs**

➜ The demand from small and medium sized enterprises for OSS/BSS solutions is expected to increase

### Megatrends supporting growth:

**Urbanization**

➜ A megatrend supporting market growth

**Digital transformation**

➜ A megatrend supporting market growth

Source: Allied Market Research, Transparency Market Research, Global Market Insights

# Industry and competitive landscape 3/4

Operators' business models have long been in transition. Historically, operators have been strongly driven by traditional and relatively standardized communication solutions compared to their competitors. The focus of value creation has been largely on its own cost-efficiency and management and support functions. Over the past few years, competition between operators has intensified and a significant amount of new competition from technology companies has also emerged. In terms of operators' value creation, this development has led to a more customer-oriented approach and continuous ability to react (quick launch time of new services), and fully digital services have become the core of operational activities. In the big picture, telecoms operators are transforming themselves into more holistic digital service providers.

From the viewpoint of BSS solutions, this shift has, in turn, emphasized the agility and flexibility of the system. The challenge for operators has, however, been that in an On-Premise environment, several different systems tailored for old earnings models have been used, which has made IT infra slow-moving, and also made it difficult to respond to new competition. In order to maintain their competitiveness and strengthen new revenue models, operators have started to unwind the technical debt resulting from the above factors. However, moving away from legacy systems is a technically demanding, expensive and time-consuming process. Thus, the changes in operators' business models offer attractive long-term growth paths for competitive BSS providers.

Another clear growth driver in the OSS/BSS market is the ongoing cloud transformation of systems. In addition to the cumbersome nature of on-premise systems, the problem has been the high price tag of customization. As a result, the lifecycle and switching costs of systems can be very high. In addition, system updates can cause direct operational disruptions, hampering day-to-day operations. The key competitive advantages of cloud-based solutions come from lower life cycle costs and a more flexible basic nature (e.g. less customization). Both characteristics are highly relevant for operators, given the disruptive nature of business models and the factors affecting competitiveness (e.g. the ability to bring new services to market quickly). Cloud transformation is therefore a clear long-term trend that will support market growth, although a strong dependence on legacy systems may act as a brake on growth. However, the share of cloud-based solutions is still relatively low and the development of cloud transformation by operators has been relatively slow.

## Three levels of competition

Due to the fragmented structure of the industry, the competitive field is also multifaceted. Thus, Tecnotree doesn't only compete with certain types of companies, but competes purely in the OSS/BSS market and mainly with players focused on the operator field, global network equipment suppliers and multinational software houses involved in several industrial verticals. In addition, customers' own IT departments act to some extent as competitors to Tecnotree.

## Selected competitors of Tecnotree

amdocs, csg, Netcracker, STL, Whale Cloud, qvantel, Optiva, COMARCH

Players specializing in BSS solutions and with a strong position in the operator market

ERICSSON, HUAWEI, NOKIA, ZTE

Leading network infra suppliers that are gradually moving away from the BSS market

ORACLE, hp, CGI, IBM

Global software giants that are involved in several industrial verticals

Source: The companies, Inderes

# Industry and competitive landscape 4/4

Among BSS suppliers that nearly only focus on the operator field, Tecnotree's best known competitors are, in our opinion, Amdocs, Netcracker, CSG, Comarch, Optiva and Sterlite. In addition to these companies, Tecnotree also competes with a number of smaller suppliers such as Whale Cloud and Qvantel. Generally, the key strengths of players that are strongly positioned in the operator field derive, in our opinion, from deep industry expertise and long customer relationships. The largest players typically also benefit from their extensive resources, while for smaller suppliers, customer proximity and agility can be a competitive advantage. Partly as a result of this and the more limited sales resources available, smaller companies typically have very concentrated customer portfolios.

Competitors include global network equipment and infrastructure suppliers such as Ericsson, Nokia, Huawei and ZTE. Historically, these companies have sought a wider share of the telecommunication sector's value chain by also spreading to the OSS/BSS market. Huawei has a history of gaining market share by forcing its BSS solutions into the overall supply of networks. However, it is our understanding that Huawei and other infrastructure providers have scaled down their BSS operations in recent years. This can therefore create new opportunities for smaller players.

The third category of competitors is the multinational software houses, for which the operator market has typically been a reasonably important vertical. These companies have historically played a key role in consolidating the market through their inorganic movements. The key strengths of these companies include large resources and, to some extent, extensive vertical expertise and scalability (incl. sharing certain best practices). We estimate that software houses competing with Tecnotree include Oracle, IBM and CGI.

### Sustainable competitive advantages are hard to find

Despite the industry's good growth profile, competition is fierce with numerous solution providers in the market, and we believe that achieving significant technological differentiation is very challenging, especially in the long term. The market is made more challenging by the high negotiating power of buyers. Operators are rarely dependent on a single supplier and because there are many competitors, they have a lot of choice when selecting a supplier. However, the high cost of exchange limits buyers' negotiating power somewhat. We believe that success in the industry requires highly competitive and continuous product development and the ability to anticipate future developments in our own operating verticals. In the industry, we estimate that the key sources of competitive advantage that are closest to being sustainable come from the switching costs faced by the customer and hence from long customer relationships. Building these requires, however, success in product development and anticipation and, thus, continuously filling the customer promise. In light of Tecnotree's long operational history and new customer wins in recent years, the company's overall competitiveness currently appears to be at a good level.

### Structure of competitive field


Source: Inderes

# Strategy

## Value proposition and positioning

Tecnotree's value proposition to its customers is largely built on a technologically capable, cost-effective and cloud-based BSS offering. The company aims to establish itself as an important strategic supplier to the customer and thereby increase the switching costs. We think the company has historically done this quite well.

The company's strategic target segment is operators in emerging economies and with high technical standards. We believe this is justified given the company's long history and expertise in these areas. At the same time, however, the company's target segment raises its risk profile through risk factors related to emerging economies.

In our view, Tecnotree isn't in the premium price range, which we believe makes sense given the company's target segment. As the company's human resources are located in competitive regions, this creates a certain price elasticity relative to competitors. As such, we believe the company strives to provide the best value for money solution for its customers.

## The strategy is geared toward profitable growth

Naturally, Tecnotree aims to achieve profitable growth through its digital transformation business for operators. Growth will be pursued in particular with existing customers, by winning new customers and, in the longer term, by expanding into new industrial verticals.

Success in product development and sales are critical to the implementation of the company's strategy. Product development investments are essential to the company's capital allocation, and their success will largely determine the company's future competitiveness.

We believe that the pursuit of growth will remain at the core of the company's strategy well into the future and thus we don't expect the company to start distributing profits, at least not in the near future. Instead, we expect the company to continue to allocate capital to the development of its product portfolio, either organically or inorganically.

## Growth in existing customers

At the heart of Tecnotree's growth strategy is growth in its existing large customer base. For the most part, the company has very long and close relationships with its existing customers, some of which have lasted for decades. The strategies of the company's main customers are very growth-oriented, creating a good opportunity for Tecnotree to grow with them. With a concentrated customer portfolio, Tecnotree's growth is also to some extent dependent on the growth of its customers. In the longer term, we believe that the company should continue to diversify its customer risk by investing in new customer acquisition.

## New customers

In addition to existing customers, Tecnotree naturally also aims to win new ones. This is essential for long-term growth and also for risk management. The focus on new customer acquisition is primarily on emerging markets, which is justified given the local expertise that comes with a long history. However, acquiring new customers is often difficult due to high switching costs, long sales cycles and fierce competition. However, Tecnotree has recently succeeded in winning new customers, which is a sign of the competitiveness of the company's offering and its sales capabilities. In order to win new customers, the company often has to offer either discounts or long payment terms, of which it has relied particularly on the latter. This has been reflected in a strong increase in working capital, which is a conscious strategic choice for the company.

## Expanding into new verticals and business models

In the long term, Tecnotree aims to expand more strongly in verticals outside telecom operators. This would bring new revenue streams to the company and thus diversify the cyclical risks associated with telecom operators' investments. At the moment, growth in new verticals is sought with Moments and DiWa (Digital Wallet) products in particular. In these, revenue streams are mainly transaction-based and thus highly scalable. Their growth would bring more continuity and therefore predictability to net sales.

The company already has an example of a winning contract for its Moments platform with Dubai Sports Council, an important opening in new verticals. The company has announced that the target verticals for its Moments platform include sports, education, healthcare and entertainment.

# Strategy and value proposition

## Strategic objectives

### Profitable growth and operational efficiency

#### Current customers

- Growth with existing customers makes sense if customers' own strategies are growth-oriented
- Long customer relationships create good foundations for growth
- Doesn’t require significant additional investment in product development or sales
- Concentrated customer portfolio makes growth partly dependent on old customers

#### New customers

- Acquiring new customers is important for growth and risk management
- Focus on new customer acquisition primarily in emerging regions
- New customer acquisition is costly due to high customer switching costs, long sales cycles and fierce competition
- New customer acquisition often requires Tecnotree to be flexible on payment terms or margins

#### New verticals

- Growing in new verticals would bring new revenue streams and lower risk levels
- The company already has solutions for new verticals (Moments and DiWa) and an example of a contract won (Dubai Sports Council)

### Value proposition and positioning

#### Value proposition

- Tecnotree's value proposition is built on a technologically capable, cost-effective and cloud-based BSS offering
- The aim is to establish its position as a strategic partner to the customer, thereby increasing the customer's potential switching costs
- The company has succeeded in delivering on the value proposition in the longer term

#### Target segment

- The strategic target segment is operators in emerging economies
- We believe this is justified given the company's long history and expertise in this segment
- The target segment contributes to raising the company's risk profile
- In the long term, the company also aims to grow in non-operator verticals

#### Pricing

- Tecnotree isn’t in the premium price range but strives to offer the best value for money with its products. We believe this is justified given the company's target segment (low ARPU)
- Expert resources are located in lower cost areas, creating pricing flexibility
- The core of value creation is not pricing but operational efficiency

Source: Inderes

# Financial position 1/2

## Historical growth and earnings development

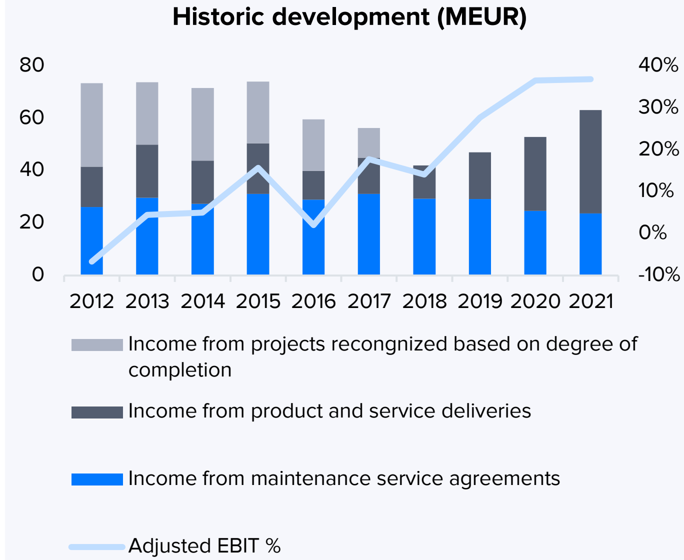
Tecnotree's historical net sales and earnings performance has been very mixed, especially during the crisis years. Between 2015 and 2018, the company's net sales fell significantly as project risks were materialized. From 2019 onwards, the company's net sales started to grow steadily again. Between 2019 and 2021, net sales grew by an average of 15.3% per year. The growth has been largely driven by an increase in sales of own licenses and deliveries. By contrast, the share of ongoing maintenance income of net sales has fallen sharply. Profitability has also developed favorably as the turnaround has progressed, with the adjusted EBIT margin gradually increasing from 14.1% in 2018 to 36.9% in 2021. The positive development in profitability has been driven by the scaling of the cost structure in line with net sales growth. In addition, profitability has been supported by the capitalization of product development investments from 2019 onwards, as the resulting depreciation hasn't increased significantly yet. The capitalized product development costs for 2019-2021 were EUR 2.9-5.4 million and their impact on the EBIT margin was around 6-8% (if the investments had been recorded as costs). As such, we consider the very strong profitability in 2020-2021 to be an exception, at least in the short term.

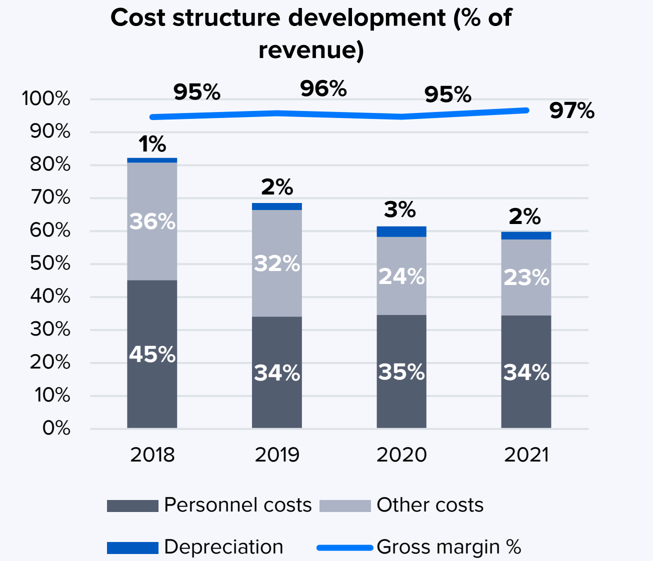
## The cost structure is mainly fixed

As is typical for a software house, Tecnotree's gross margin is very high and has fluctuated between 95% and 97% over the last few years. The high gross margin is due to the cost logic of the company's earning model, as the variable direct costs associated with sales are small in size. However, Tecnotree's gross margin may give too rosy a picture, as in the cost-based income statement, personnel costs related to deliveries aren't reflected in material and service costs. Thus, in the function-specific income statements, we estimate that the gross margin would be significantly lower than at present, but still at a good level. Therefore, the high gross margin doesn't allow conclusions to be drawn about the pricing power of the company. However, a high gross margin makes the company's earnings leverage very strong if fixed costs don't increase in line with net sales growth.

The largest single item in Tecnotree's cost structure is personnel costs, which accounted for 55% of total costs and 34% of net sales in 2021. The company's key functions of product development and sales are very knowledge- and people-intensive. We estimate that particularly the personnel costs linked to product development are almost entirely fixed, while the costs on the sales side also have variable elements in the form of various commissions.

Overall, personnel costs are a relatively scalable cost item in line with growth. However, Tecnotree's earnings model, competitiveness and core of long-term value creation rely on personnel intensive activities. In practice, the pursuit of organic growth therefore always requires some additional investment in human resources as the company's order book grows. Investment in these activities must be ongoing and, to some extent, front-loaded.




Source: Inderes

# Financial position 2/2

The company has to make front-loaded investments in human resources, especially in order to win new customers. Thus, there may be clear differences in the scaling of costs at quarterly and annual levels.

Tecnotree's other costs have accounted for 23-36% of net sales in recent years. Other expenses consist mainly of direct subcontracting, other external resources and other costs typically associated with the business. Other costs include both variable and fully fixed components.

### Withholding taxes have been a challenge in history

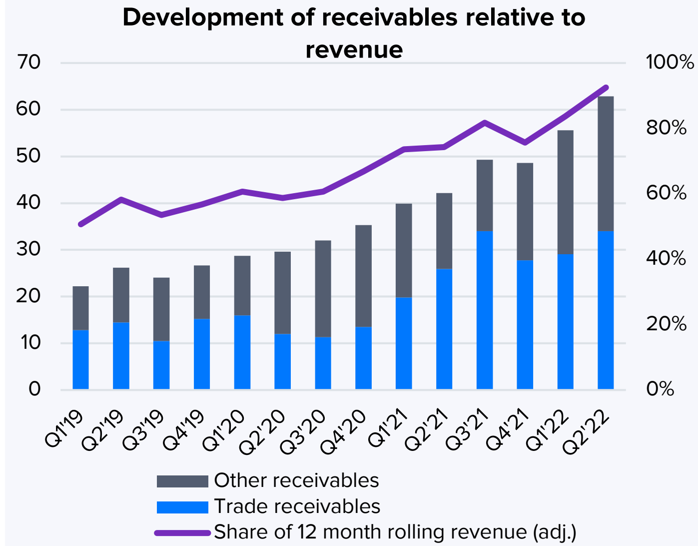
Sales of systems and services provided by Tecnotree are subject to withholding tax in several countries of operation, which in some cases results in double taxation of the company's income. Local tax laws in emerging regions that are of importance to Tecnotree are also typically fast-changing and, in our view, sometimes ambiguous in their interpretation. Historically, withholding taxes have been a major nuisance for the company, as they have accounted for most of the tax burden paid by the company. High withholding taxes are naturally a burden not only on net income but also on cash flow. However, the company has managed to significantly reduce its withholding tax burden relative to earnings in recent years, but we believe withholding taxes will continue to be at least somewhat of a nuisance. In Finland, however, the company pays virtually no income tax as it has a significant amount of tax-deductible product development costs. Due to withholding taxes and tax planning by the company, there is always uncertainty in predicting the company's annual tax rate.

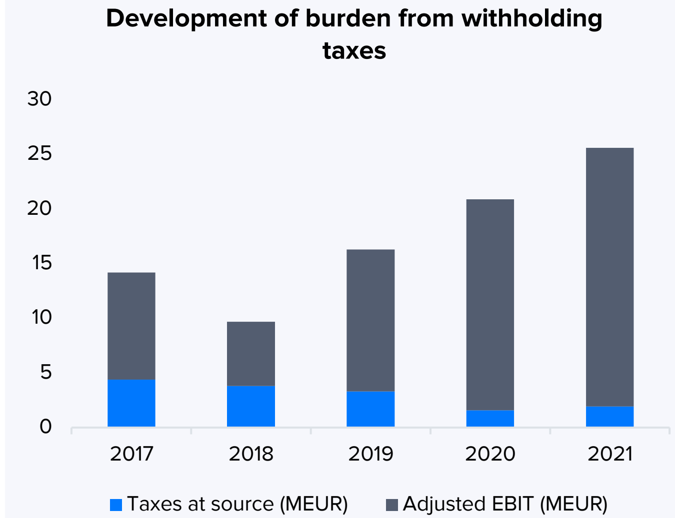
### Balance sheet position is strong and cash flow weak

At the end of Q2'22, Tecnotree's equity ratio was 82% and net gearing -19%. The balance sheet strengthened significantly in 2021, when the company raised gross assets of EUR 22 million in a directed issue and fully repaid its restructuring debt. The company's balance sheet is therefore strong but given the challenges of repatriating cash flow and the strong commitment of working capital, it must remain so. We feel the company's financial position is stable, and we don't see it causing any actual speed bumps for implementing the company's growth strategy and seeking longer term value creation. The most significant risk on the balance sheet relates to trade receivables, where write-downs could clearly weaken the balance sheet ratios. However, we currently consider the risk of significant write-downs to be low.

The balance sheet total at the end of Q2'22 was EUR 91 million. On the asset side, by far the largest part consisted of trade and other receivables (62.9 MEUR). At the end of Q2'22, cash and cash equivalents amounted to EUR 13.9 million. Intangible assets totaled EUR 11.3 million. On the liabilities side, equity amounted to EUR 74.4 million and the rest of the balance sheet consisted mainly of trade payables (13.9 MEUR).

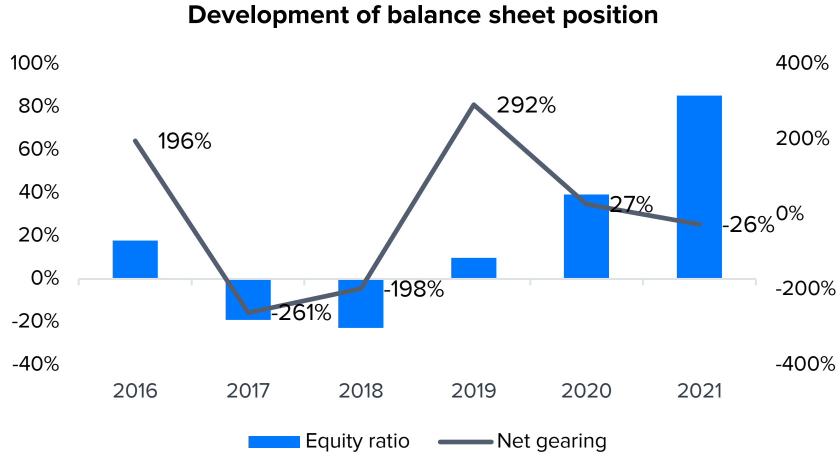
Overall, Tecnotree's profitability and balance sheet ratios don't give a fully accurate picture of the company's financial situation, as the company's free cash flow is structurally lower than both EBITDA and other earnings rows. In light of this and factors related to cash flow repatriation, we also consider it important to monitor cash flow ratios.

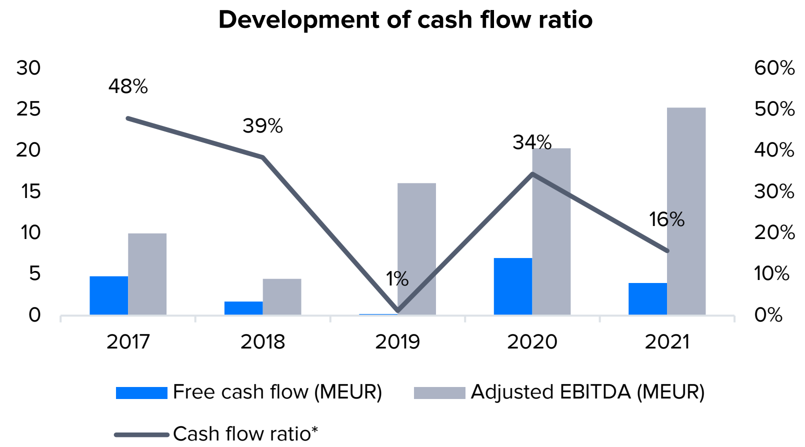



Source: Inderes

# Financial position




*Ratio of free cash flow to adjusted EBITDA


Source: Inderes

# Estimates 1/3

## Basis for the estimates

We model Tecnotree's net sales development separately through goods and services contracts (including own and third-party licenses and deliveries) and maintenance revenues. We base our short-term forecasts on the order book, new orders received and our estimates of ongoing revenue streams.

In the context of this report, we have revised our growth and profitability estimates downwards for the coming years and for the long term. We believe that in the current weakened market environment, our previous assumptions proved to be too optimistic, resulting in our earnings estimates for the coming years being lowered by around 14-20%.

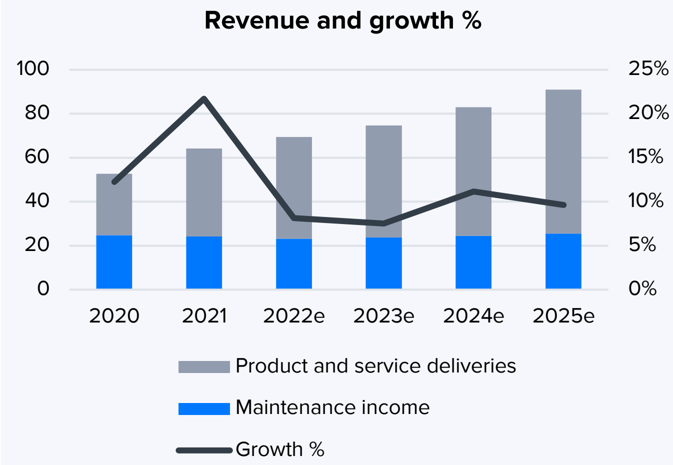
In the short term, quarterly business predictability is quite poor, as the timing of orders and deliveries can have a significant impact on quarterly net sales. In addition, as the company has very high gross margins and a fixed cost structure, fluctuations in the level of net sales can also cause a clear variation in the company's quarterly profitability. Q1 is typically the slowest quarter for the company in terms of net sales and therefore also the weakest in terms of profitability. Short-term predictability will be improved by the guidance that the company provided for the first time in years in its Q2'22 report.

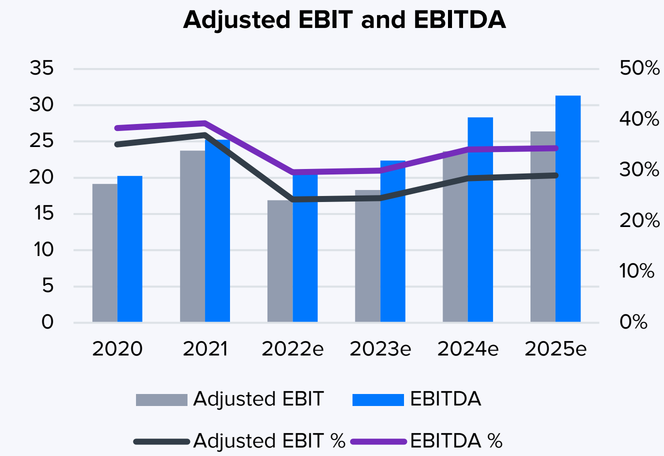
On an annual basis, however, the trend is steadier, and the numbers should better track the company's longer-term trends. In the medium term, the visibility of the company's business is already reasonable, as the structure of the order book is long and net sales also include ongoing revenue streams. The main uncertainties relate to new orders and hence to the growth rate. This is due to factors such as the timing of operators' investments. In the long term, the company's growth will largely depend on its own competitiveness and the implementation of its strategy with the general development of the market naturally having an impact.

Forecasting costs is key to predicting short- and medium-term profitability. In practice, profitability is determined by the gross margin and the level of fixed costs (OPEX-%). Gross margin is expected to remain strong at 93-95%. The main uncertainties to operational profitability are related to staff efficiency and the timing and size of investments, in line with the company's cost profile. Currency exchange rates introduce uncertainty into the net sales, cost and financial expense rows. In addition, the visibility of the company's tax rate in the bottom rows is quite low, especially due to withholding taxes.

## Profitability under pressure this year

2020 and 2021 were excellent years for Tecnotree. In the difficult environment of the COVID pandemic, the company managed to grow, improve its profitability, reduce its customer risk and pay off its restructuring debt, thereby strengthening its financial position significantly. The years 2020-2021 sealed the company's return from a company in crisis to a profitable growth company.




Source: Tecnotree, Inderes

# Estimates 2/3

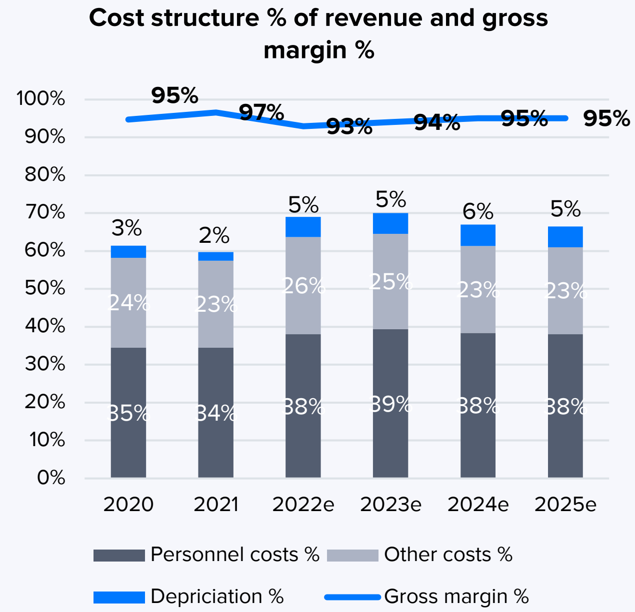
By contrast, 2022 has got off to a much more challenging start. Tecnotree's net sales still showed rapid growth in the first half of the year (H1'22: +13.6 %), but profitability (H1'22 EBIT-%: 22.6%) has deteriorated significantly from the previous year's levels. The company's profitability is currently under pressure from several directions. Tecnotree's order book has grown significantly in recent years and in order to secure its own delivery capacity, the company needs to invest heavily in human resources. The new large accounts won also require a stronger local presence in supply and support organizations, which will create cost pressures in the short term. At the same time, the company is generally struggling with strong cost inflation and unfavorable currency exchange rate developments. The company is suffering from high wage inflation, especially in India, where most of its personnel works. At the same time, the depreciation of the euro against the Indian rupee will increase costs in euros.

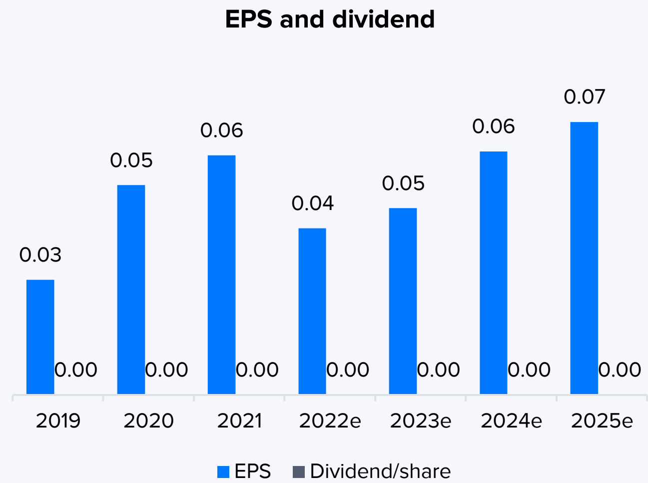
Tecnotree's guidance for the current year expects net sales to grow by 5-10% and operating profit to decline from the previous year (2021: 23.7 MEUR). In our view, the growth indicated by the guidance is quite low given the company's growth in the first half of the year and its large order book (H1'22: EUR 72.8, +32%). Thus, we believe that the cautious guidance indicates that the company's delivery capacity is currently not at a fully optimal level. We estimate that the slowdown in growth is also due to the postponement of investment decisions by the company's customers due to the challenging economic environment. This may slow down the delivery of some parts of the order book.

We expect Tecnotree's net sales to grow by about 8% to EUR 69.3 million this year. Our forecast is therefore slightly above the mid-point of the guidance range. For the second half of the year, this means a slowdown in growth to around 4%. This year we expect growth to come particularly from own license sales and deliveries. By contrast, we expect maintenance income to continue to decline as in previous years. We don't yet expect significant revenues from the company's transaction-based solutions Tecnotree Moments and DiWa in the current year.

We expect adjusted EBIT to decline to EUR 16.9 million, which would correspond to an adjusted EBIT margin of around 24% (2021: 37%). In other words, we forecast a clear deterioration in profitability and earnings levels. In addition to the factors affecting profitability that we discussed earlier, the result is also burdened by the clearly increasing level of depreciation year-on-year. This is because the depreciation of product development costs capitalized by Tecnotree from 2019 onwards will start to roll over more strongly from this year onwards. The biggest leap in the level of depreciation is expected to take place this year. We expect the net result to decrease to EUR 12.5 million (2021: 18.4 MEUR), corresponding to earnings per share of EUR 0.04 (2021: EUR 0.06).

Despite the clearly positive result, we expect free cash flow to remain negative at EUR -4.7 million this year. Cash flow is heavily burdened by the commitment of working capital and the company's investments in product development. There is, of course, considerable uncertainty involved in forecasting cash flows. According to the company, the cash flow situation should clearly improve within a year. If the company manages to repatriate its receivables already at the end of the year, the free cash flow could already be positive for the current year.




Source: Tecnotree, Inderes

# Estimates 3/3

### Growth continues in 2023-2025

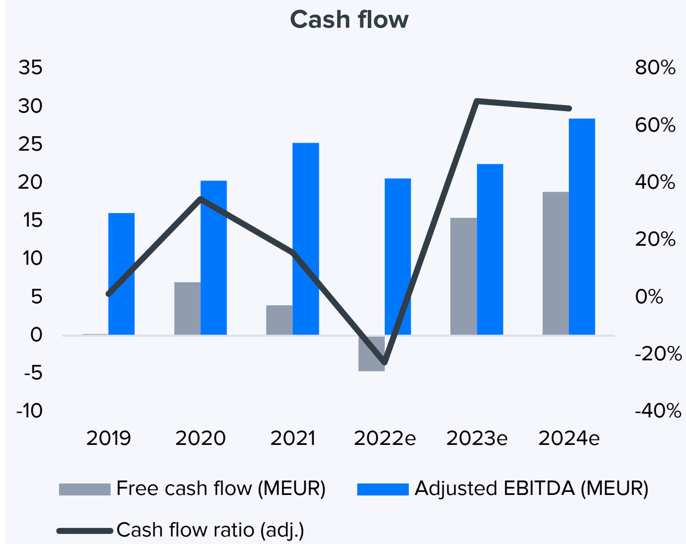
In 2023, we expect Tecnotree's net sales to grow by 8%. We expect the challenging economic environment to cause delays in customers' investment decisions and thus slow growth further in H1'23. Toward the end of 2023, we expect growth to accelerate again. In 2024 and 2025, we expect Tecnotree's net sales to grow at an average rate of just over 10%. We expect own license sales and deliveries to be the main drivers of growth in the coming years. We also expect maintenance income to start growing moderately in the coming years, as the company's numerous deliveries over the past few years should start generating more maintenance income.

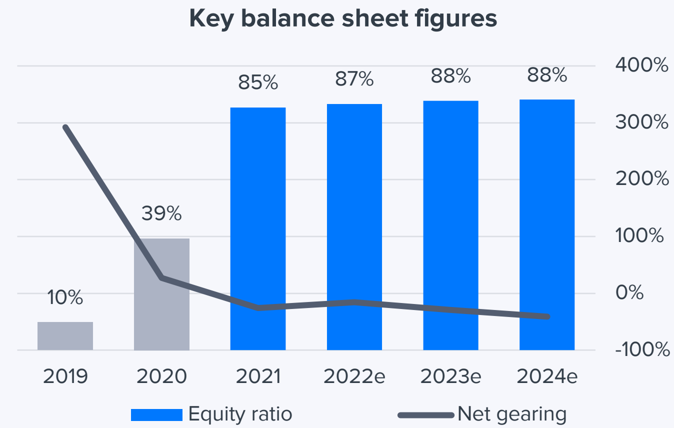
Tecnotree has indicated that its new growth initiatives Moments, DiWa and SaaS-based solutions would start generating revenues in late 2023 or during 2024. We don't forecast their net sales separately, nor do we rely on their breakthrough, but the new growth drivers create a positive growth option from 2024 onwards. If macroeconomic uncertainty eases, the competitiveness of the company's products remains at a good level and the company manages to maintain its supply capacity, the company may have the potential to grow even faster than our estimates in the medium term.

In terms of profitability, we forecast an adjusted EBIT margin of 24.5% in 2023, gradually increasing towards 29% in 2025. The key to the profitability development is the scaling of fixed costs as net sales grow. Managing cost inflation and sticking to a cost-efficient approach is also critical. We also expect that from 2023 onwards, the working capital commitment will ease and the company's cash flow will improve significantly.

### Long term estimates

Between 2026 and 2031, we forecast net sales growth to gradually level off from 5% to 3%. After that, from 2031 onwards, our terminal growth assumption is 2%. Our long-term growth estimates are quite moderate given the expected growth rate of the market. However, we believe it is justified to maintain a safety margin in the estimates, as the visibility on the company's technological competitiveness and market development in the longer term is quite marginal. We expect the operating margin to reach 30% in 2027 and to level off from there to 28% in 2030, which is also our terminal assumption. If the company's platform-based solutions are successful and the company manages to maintain its competitiveness and cost-efficient operating model, our longer-term assumptions may prove to be too cautious.




Source: Tecnotree, Inderes

# Income statement

| Income statement | 2020 | Q1'21 | Q2'21 | Q3'21 | Q4'21 | 2021 | Q1'22 | Q2'22 | Q3'22e | Q4'22e | 2022e | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **52.8** | **11.2** | **16.7** | **18.2** | **18.1** | **64.2** | **13.3** | **18.3** | **19.2** | **18.5** | **69.3** | **74.6** | **83.0** | **91.0** |
| Group | 52.8 | 11.2 | 16.7 | 18.2 | 18.1 | 64.2 | 13.3 | 18.3 | 19.2 | 18.5 | 69.3 | 74.6 | 83.0 | 91.0 |
| **EBITDA** | **20.3** | **3.4** | **7.9** | **7.6** | **6.4** | **25.3** | **3.0** | **6.0** | **6.4** | **5.3** | **20.6** | **22.5** | **28.5** | **31.5** |
| Depreciation | -1.7 | -0.3 | -0.3 | -0.5 | -0.5 | -1.6 | -1.0 | -0.9 | -0.9 | -0.9 | -3.8 | -4.2 | -4.8 | -5.1 |
| **EBIT (excl. NRI)** | **19.3** | **3.1** | **7.6** | **7.1** | **5.9** | **23.7** | **2.0** | **5.1** | **5.4** | **4.3** | **16.9** | **18.3** | **23.6** | **26.4** |
| **EBIT** | **18.6** | **3.1** | **7.6** | **7.1** | **5.9** | **23.7** | **2.0** | **5.1** | **5.4** | **4.3** | **16.9** | **18.3** | **23.6** | **26.4** |
| Group | 18.6 | 3.1 | 7.6 | 7.1 | 5.9 | 23.7 | 2.0 | 5.1 | 5.4 | 4.3 | 16.9 | 18.3 | 23.6 | 26.4 |
| Net financial items | -2.7 | -0.2 | -1.3 | -0.7 | 0.0 | -2.2 | -0.4 | 0.7 | -0.2 | -0.2 | -0.1 | -0.8 | -0.8 | -0.8 |
| **PTP** | **15.9** | **2.9** | **6.2** | **6.4** | **5.9** | **21.5** | **1.6** | **5.9** | **5.2** | **4.1** | **16.8** | **17.5** | **22.8** | **25.6** |
| Taxes | -2.3 | -0.5 | -0.9 | -1.1 | -0.7 | -3.1 | -0.6 | -1.9 | -1.0 | -0.8 | -4.3 | -3.5 | -4.6 | -5.1 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net earnings** | **13.6** | **2.4** | **5.3** | **5.4** | **5.3** | **18.4** | **1.0** | **4.0** | **4.2** | **3.3** | **12.5** | **14.0** | **18.3** | **20.5** |
| **EPS (adj.)** | **0.05** | **0.01** | **0.02** | **0.02** | **0.02** | **0.06** | **0.00** | **0.01** | **0.01** | **0.01** | **0.04** | **0.05** | **0.06** | **0.07** |
| **EPS (rep.)** | **0.05** | **0.01** | **0.02** | **0.02** | **0.02** | **0.06** | **0.00** | **0.01** | **0.01** | **0.01** | **0.04** | **0.05** | **0.06** | **0.07** |

| Key figures | 2020 | Q1'21 | Q2'21 | Q3'21 | Q4'21 | 2021 | Q1'22 | Q2'22 | Q3'22e | Q4'22e | 2022e | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth-%** | 12.3 % | 14.3 % | 17.6 % | 24.7 % | 27.5 % | 21.6 % | 18.8 % | 9.6 % | 5.5 % | 2.4 % | 8.0 % | 7.7 % | 11.2 % | 9.6 % |
| **Adjusted EBIT growth-%** | 48.5 % | 34.8 % | 30.2 % | 2.9 % | 37.8 % | 22.7 % | -34.2 % | -32.4 % | -23.7 % | -27.3 % | -28.8 % | 8.6 % | 29.0 % | 11.7 % |
| **EBITDA-%** | 38.5 % | 30.4 % | 47.1 % | 41.8 % | 35.5 % | 39.4 % | 22.5 % | 32.9 % | 33.2 % | 28.4 % | 29.8 % | 30.2 % | 34.3 % | 34.6 % |
| **Adjusted EBIT-%** | 36.6 % | 27.7 % | 45.2 % | 39.0 % | 32.7 % | 36.9 % | 15.3 % | 27.9 % | 28.2 % | 23.2 % | 24.3 % | 24.5 % | 28.5 % | 29.0 % |
| **Net earnings-%** | 25.7 % | 21.4 % | 31.9 % | 29.6 % | 29.1 % | 28.7 % | 7.8 % | 21.9 % | 21.7 % | 17.7 % | 18.0 % | 18.8 % | 22.0 % | 22.5 % |

Source: Inderes

| Estimate revisions<br>MEUR / EUR | 2022e<br>Old | 2022e<br>New | Change<br>% | 2023e<br>Old | 2023e<br>New | Change<br>% | 2024e<br>Old | 2024e<br>New | Change<br>% |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 69.3 | 69.3 | 0% | 80.0 | 74.6 | -7% | 89.1 | 83.0 | -7% |
| **EBITDA** | 21.2 | 20.6 | -3% | 27.2 | 22.5 | -17% | 32.4 | 28.5 | -12% |
| **EBIT (exc. NRIs)** | 17.4 | 16.9 | -3% | 23.0 | 18.3 | -20% | 27.6 | 23.6 | -14% |
| **EBIT** | 17.4 | 16.9 | -3% | 23.0 | 18.3 | -20% | 27.6 | 23.6 | -14% |
| **PTP** | 17.6 | 16.8 | -5% | 22.7 | 17.5 | -23% | 27.3 | 22.8 | -16% |
| **EPS (excl. NRIs)** | 0.04 | 0.04 | -5% | 0.06 | 0.05 | -21% | 0.07 | 0.06 | -14% |
| **DPS** | 0.00 | 0.00 | | 0.00 | 0.00 | | 0.00 | 0.00 | |

Source: Inderes

# Balance sheet

| Assets | 2020 | 2021 | 2022e | 2023e | 2024e |
|---|---|---|---|---|---|
| **Non-current assets** | **7.3** | **13.1** | **16.0** | **18.5** | **20.4** |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangible assets | 5.3 | 9.9 | 12.7 | 15.2 | 17.0 |
| Tangible assets | 0.5 | 0.4 | 0.5 | 0.6 | 0.6 |
| Associated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-current assets | 1.0 | 2.2 | 2.2 | 2.2 | 2.2 |
| Deferred tax assets | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Current assets** | **43.3** | **66.2** | **76.6** | **88.9** | **107** |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Receivables | 35.3 | 48.6 | 63.8 | 61.2 | 61.4 |
| Cash and equivalents | 8.0 | 17.6 | 12.8 | 27.7 | 45.9 |
| **Balance sheet total** | **50.6** | **79.3** | **92.6** | **107** | **128** |

Source: Inderes

| Liabilities & equity | 2020 | 2021 | 2022e | 2023e | 2024e |
|---|---|---|---|---|---|
| **Equity** | **19.9** | **67.7** | **80.2** | **94.3** | **113** |
| Share capital | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Retained earnings | 18.7 | 37.1 | 49.6 | 63.6 | 81.9 |
| Hybrid bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | -0.2 | 29.3 | 29.3 | 29.3 | 29.3 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Non-current liabilities** | **18.8** | **2.7** | **2.7** | **2.7** | **2.7** |
| Deferred tax liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long term debt | 12.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 6.4 | 2.7 | 2.7 | 2.7 | 2.7 |
| **Current liabilities** | **12.0** | **8.9** | **9.7** | **10.5** | **12.4** |
| Short term debt | 1.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Payables | 11.0 | 8.9 | 9.7 | 10.5 | 12.4 |
| Other current liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Balance sheet total** | **50.6** | **79.3** | **92.6** | **107** | **128** |

# Valuation 1/3

## Valuation methods

We look at the valuation of Tecnotree mainly through earnings-based valuation multiples. We use both the P/E ratio and the EV/EBIT ratio, which better reflects the balance sheet. As the company's cash flow is chronically weaker than earnings, we look at cash flow multiples in addition to earnings multiples.

We also give some weight to the DCF cash flow model in the valuation. We also look at the long-term expected return under different scenarios. Peer companies don't play a major role in our valuation as the number of listed BSS suppliers is small and their business profile is quite different from Tecnotree's.

## Earnings and cash flow multiples

Based on our estimates, Tecnotree's P/E ratios for 2022 and 2023 are 13x and 12x while the corresponding EV/EBIT ratios are 9x and 8x. We believe these levels are quite moderate given that we forecast Tecnotree's profitability to remain under pressure until 2023. In 2024, we expect growth to accelerate and profitability to improve significantly. This brings the P/E ratio down to 9x and the EV/EBIT ratio to 5x. Of course, there is still uncertainty in the forecasts, but we believe these are already quite low levels given Tecnotree's growth and profitability profile. Thus, we see some buffer in Tecnotree's valuation against the realization of operational risks and weaker-than-expected performance.

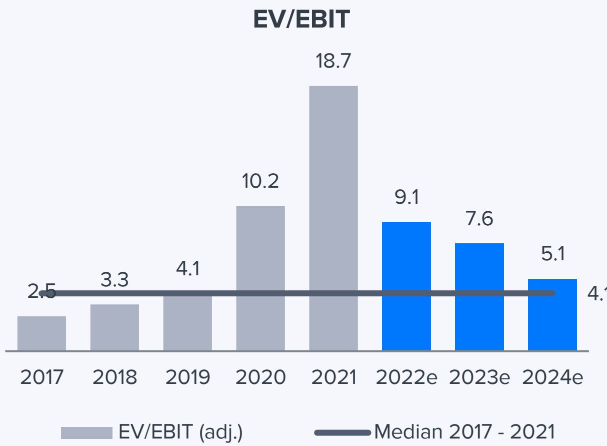
However, we believe that pure earnings multiples may give too rosy a picture of the company's valuation due to its weak cash flow profile. In particular, forward-looking EV-based multiples rely on assumptions of strong cash-flow repatriation and can therefore be misleading if a company fails to repatriate its receivables in the coming years.

We forecast a negative cash flow ratio in 2022 due to an increase in working capital. In 2023 and 2024, the multiples fall to 11x-9x, which in our view are already quite low. However, these include the assumption that the company will be able to repatriate its receivables well in the coming years, so that the change in working capital won't have the same impact on cash flow as this year. In terms of cash flow, much also depends on the company's growth rate, as growth ties up a significant amount of working capital in the form of trade receivables. Moreover, cash flows fluctuate more between years than earnings, which is why cash flow multiples should also be treated with some caution.

In order to observe valuation more strongly through earnings multiples, Tecnotree would have to prove that its cash flow profile has been permanently restored. With the current profile, we don't believe the company deserves particularly high earnings multiples, like profitably growing SaaS companies that are able to generate abundant cash flow despite buoyant growth and growth investments.

| Valuation | 2022e | 2023e | 2024e |
|---|---|---|---|
| Share price | 0.54 | 0.54 | 0.54 |
| Number of shares, millions | 310.5 | 310.5 | 310.5 |
| Market cap | 167 | 167 | 167 |
| EV | 154 | 139 | 121 |
| P/E (adj.) | 13.3 | 11.9 | 9.1 |
| P/E | 13.3 | 11.9 | 9.1 |
| P/FCF | neg. | 10.8 | 8.8 |
| P/B | 2.1 | 1.8 | 1.5 |
| P/S | 2.4 | 2.2 | 2.0 |
| EV/Sales | 2.2 | 1.9 | 1.5 |
| EV/EBITDA | 7.5 | 6.2 | 4.2 |
| EV/EBIT (adj.) | 9.1 | 7.6 | 5.1 |
| Payout ratio (%) | 0.0 % | 0.0 % | 0.0 % |
| Dividend yield-% | 0.0 % | 0.0 % | 0.0 % |

Source: Inderes




Source: Inderes

# Valuation 2/3

## Long-term scenarios

We illustrate the long-term return potential of Tecnotree in three scenarios that go up to 2026. They're based on different assumptions about the company's growth rate, profitability and acceptable valuation multiples. In the long term, the scenarios are dependent on how well the company succeeds in implementing its strategy, maintaining its competitiveness through the right investments and maintaining a cost-effective operating model. The evolution of the risk profile of the business is also reflected in the valuation multiples acceptable to the company. In our view, the trade receivables situation and the future cash flow profile are key to this. The scenario analysis shows that very different scenarios can be drawn for a company, depending on the future development of its growth, profitability and risk profile.

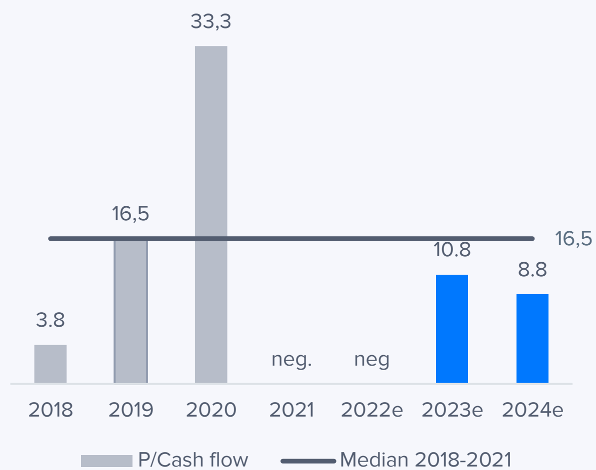
Our current estimate expects Tecnotree's net sales to grow at an average rate of around 8% until 2026. After the company's short-term profitability challenges, we expect profitability to gradually improve again, and in 2026 we expect the operating margin to reach around 30%. Reflecting a lower risk profile through strong profitability, continued good growth prospects and a recovering cash flow profile, we believe the company could be priced at an EV/EBIT multiple of at least 10x at that time. With these assumptions, Tecnotree's debt-free enterprise value in 2026 would be EUR 282 million and corresponding market value with our net cash estimate EUR 366 million or EUR 1.2 per share. Relative to the current share price, this would mean an expected annual return of around 20%. If the company still fails to repay its claims as expected and the net cash position is only half of what we forecast with other assumptions remaining unchanged, the expected annual return would still be 17%.

In the pessimistic scenario, we expect the company's growth to be significantly lower than in the baseline scenario, with average annual growth of around 3% by 2026. Weaker net sales growth could be the result, for example, of poor strategy execution or the loss of a major customer. On the other hand, technological risks and operators' investment cycles can also affect growth rates. We assume an EBIT margin of around 20% in this scenario and have set the acceptable EV/EBIT ratio at 8x, reflecting a weaker growth outlook and a still elevated risk profile. This would leave the expected annual return at -1%.

In the optimistic scenario, we expect the strategy to be very successfully implemented and net sales to grow at an annual rate of 11%. We expect growth to scale well and the EBIT margin to be 35%. We estimate that faster growth, profitability and the recovery of the cash flow profile would be visible in the acceptable valuation. We assume that at the end of such a development the company could be priced at an EV/EBIT multiple of 12x. In this scenario, the share is valued at EUR 1.8, which corresponds to an expected annual return of 33%.

| | Pessimistic | Current | Optimistic |
|---|---|---|---|
| **Revenue (MEUR)** | 75 | 95,5 | 110 |
| *Growth-% (CAGR 22-26)* | *3 %* | *8 %* | *11 %* |
| EBIT margin | 20 % | 30 % | 35 % |
| **EBIT** | 15 | 28 | 39 |
| EV/EBIT multiple | 8 | 10 | 12 |
| **EV 2026e (MEUR)** | 120 | 282 | 462 |
| Net cash 2026e | 40 | 82 | 110 |
| **Market cap 2026e** | 160 | 364 | 572 |
| Share price | 0.5 | 1.2 | 1.8 |
| *Return potential* | *-4 %* | *119 %* | *243 %* |
| *Annual expected return* | *-1 %* | *20 %* | *33 %* |

P/Cash flow




Source: Inderes

# Valuation 3/3

## DCF model

The equity value of Tecnotree under our DCF model is EUR 269 million, or ca. EUR 0.87 per share. The usefulness of the model is undermined by the challenges associated with changes in working capital and hence cash flow forecasting, as well as its sensitivity to terminal period variables. The model's perpetuity assumption for growth is 2.0%. We have set the operating margin percentage for the terminal period at 28.0%. Risks to maintaining strong profitability in the long term include a significant increase in competition, the development of competing technologies and a weakening of the company's cost-efficient operating model. Overall, we believe our assumptions for the terminal period are quite reasonable. As such, we believe that the model provides the most relevant support for the other methods we use, and particularly for looking at longer-term return potential.

The weighted average cost of capital (WACC) of our DCF model is set at 9.4%. In our model, the weight of the terminal period is 56%, which we consider to be a rather moderate level for a growth company.

## Peers don't offer significant support for valuation

There is no significant support from peers to monitor the valuation of Tecnotree, as there are only a few listed BSS suppliers. This is why we use the peer group only as a kind of framework. All the listed BSS suppliers are clearly bigger than Tecnotree and the companies' geographical focus areas and, thus, their strategic choices also focus on developed areas. This makes the peer group's risk profile lower.

The median P/E ratios for the peer group for 2022-2023 are 16x-14x and EV/EBIT ratios are 12x-11x. We estimate that Tecnotree's earnings-based discount (14-33%) is due to its smaller size and higher risk profile than its peers. In the longer term, we believe that the company's valuation should be able to approach peer levels, as long as it succeeds in pursuing profitable growth and repatriating cash flows and thus gradually lowering its risk profile.

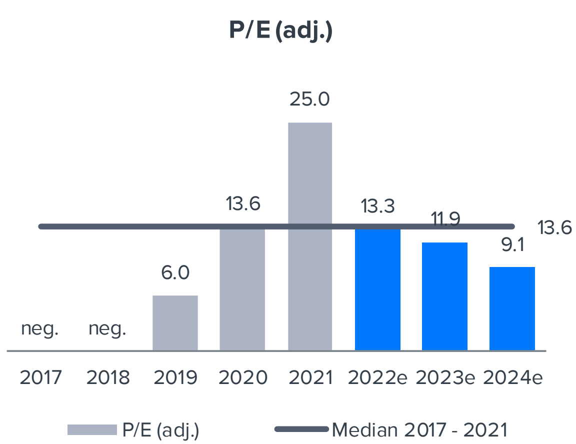
## Investment view

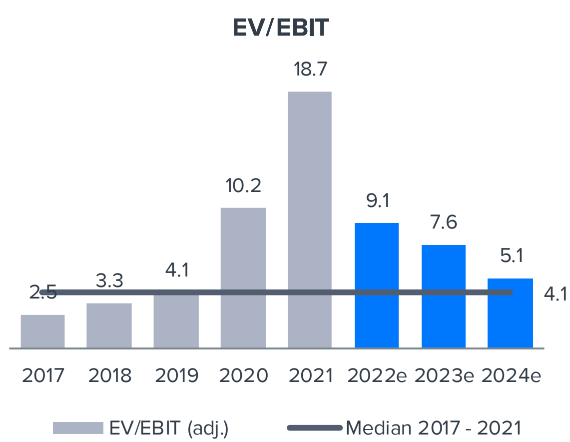
In the longer term, we believe the outlook for Tecnotree is good, underpinned by telecom operators' operational model shifts and the cloud transformation of BSS solutions. Expanding into new industry verticals also offers new growth opportunities while diversifying the company's revenue streams. However, we currently see an elevated risk profile, particularly due to increased receivables, weak cash flow performance, uncertainties related to sustainable profitability potential and the company's own supply capabilities. These factors have also been strongly reflected in the company's share in the form of a fall in the share price. Despite the elevated risk profile, we see Tecnotree's valuation as moderate and the risk/return ratio as attractive. Reflecting our lowered estimates and the elevated risk profile, we cut our target price to EUR 0.65 (was EUR 0.80) and reiterate our Accumulate recommendation.

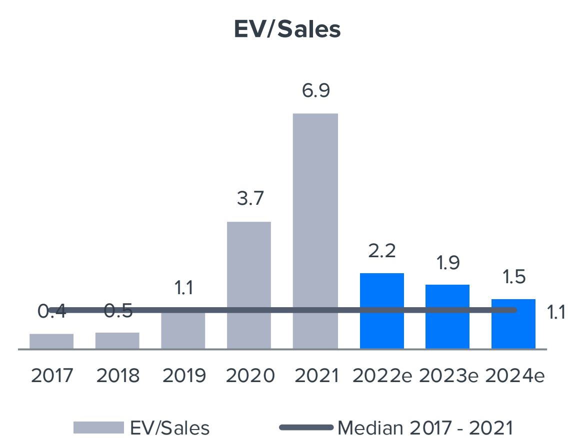
# Valuation table

| Valuation | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|---|---|---|---|
| Share price | 0.07 | 0.05 | 0.17 | 0.70 | 1.47 | **0.54** | **0.54** | **0.54** | **0.54** |
| Number of shares, millions | 122.6 | 136.6 | 235.3 | 274.6 | 313.2 | **310.5** | **310.5** | **310.5** | **310.5** |
| Market cap | 8.6 | 6.8 | 40 | 192 | 460 | **167** | **167** | **167** | **167** |
| EV | 24 | 19 | 53 | 198 | 443 | **154** | **139** | **121** | **103** |
| P/E (adj.) | neg. | neg. | 6.0 | 13.6 | 25.0 | **13.3** | **11.9** | **9.1** | **8.1** |
| P/E | neg. | neg. | 5.2 | 14.2 | 25.0 | **13.3** | **11.9** | **9.1** | **8.1** |
| P/FCF | 1.7 | 3.8 | 14.3 | 33.3 | neg. | **neg.** | **10.8** | **8.8** | **9.0** |
| P/B | neg. | neg. | 11.7 | 9.7 | 6.8 | **2.1** | **1.8** | **1.5** | **1.3** |
| P/S | 0.2 | 0.2 | 0.9 | 3.6 | 7.2 | **2.4** | **2.2** | **2.0** | **1.8** |
| EV/Sales | 0.4 | 0.5 | 1.1 | 3.7 | 6.9 | **2.2** | **1.9** | **1.5** | **1.1** |
| EV/EBITDA | 2.6 | 3.3 | 3.4 | 9.7 | 17.5 | **7.5** | **6.2** | **4.2** | **3.3** |
| EV/EBIT (adj.) | 2.5 | 3.3 | 4.1 | 10.2 | 18.7 | **9.1** | **7.6** | **5.1** | **3.9** |
| Payout ratio (%) | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | **0.0 %** | **0.0 %** | **0.0 %** | **0.0 %** |
| Dividend yield-% | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | **0.0 %** | **0.0 %** | **0.0 %** | **0.0 %** |

Source: Inderes



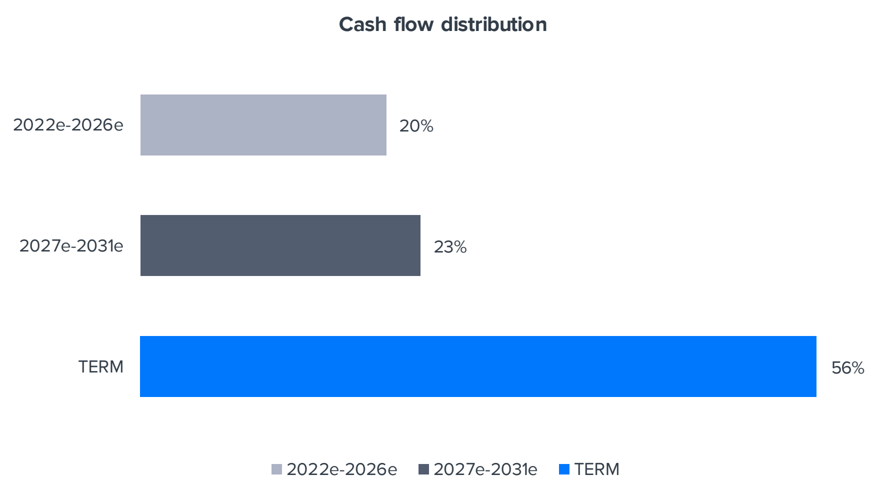



# DCF calculation

| DCF model | 2021 | 2022e | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | TERM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EBIT (operating profit)** | **23.7** | **16.9** | **18.3** | **23.6** | **26.4** | **28.2** | **29.9** | **30.6** | **31.0** | **30.8** | **31.5** | |
| + Depreciation | 1.6 | 3.8 | 4.2 | 4.8 | 5.1 | 5.5 | 5.8 | 6.2 | 6.5 | 6.7 | 6.8 | |
| - Paid taxes | -3.2 | -4.3 | -3.5 | -4.6 | -5.1 | -5.5 | -5.8 | -6.0 | -6.0 | -6.0 | -6.3 | |
| - Tax, financial expenses | -0.3 | 0.0 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | 0.0 | |
| + Tax, financial income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Change in working capital | -15.5 | -14.3 | 3.3 | 1.8 | -1.1 | -1.5 | -2.3 | -1.1 | -0.6 | -1.7 | -1.1 | |
| **Operating cash flow** | **6.3** | **2.0** | **22.2** | **25.5** | **25.1** | **26.5** | **27.5** | **29.6** | **30.7** | **29.7** | **30.8** | |
| + Change in other long-term liabilities | -3.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Gross CAPEX | -7.3 | -6.7 | -6.7 | -6.7 | -6.7 | -7.2 | -7.2 | -7.2 | -7.2 | -7.2 | -7.2 | |
| **Free operating cash flow** | **-4.7** | **-4.7** | **15.5** | **18.8** | **18.4** | **19.3** | **20.3** | **22.4** | **23.5** | **22.5** | **23.6** | |
| +/- Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | -4.7 | -4.7 | 15.5 | 18.8 | 18.4 | 19.3 | 20.3 | 22.4 | 23.5 | 22.5 | 23.6 | 326 |
| **Discounted FCFF** | | **-4.6** | **13.8** | **15.3** | **13.7** | **13.2** | **12.6** | **12.7** | **12.2** | **10.7** | **10.3** | **141** |
| Sum of FCFF present value | | 251 | 256 | 242 | 227 | 213 | 200 | 187 | 175 | 162 | 152 | 141 |
| **Enterprise value DCF** | | **251** | | | | | | | | | | |
| - Interesting bearing debt | | -0.1 | | | | | | | | | | |
| + Cash and cash equivalents | | 17.6 | | | | | | | | | | |
| -Minorities | | 0.0 | | | | | | | | | | |
| -Dividend/capital return | | 0.0 | | | | | | | | | | |
| **Equity value DCF** | | **269** | | | | | | | | | | |
| **Equity value DCF per share** | | **0.87** | | | | | | | | | | |

| Wacc | |
|---|---|
| Tax-% (WACC) | 20.0 % |
| Target debt ratio (D/(D+E) | 0.0 % |
| Cost of debt | 3.0 % |
| Equity Beta | 1.00 |
| Market risk premium | 4.75% |
| Liquidity premium | 2.65% |
| Risk free interest rate | 2.0 % |
| **Cost of equity** | **9.4 %** |
| **Weighted average cost of capital (WACC)** | **9.4 %** |

Source: Inderes



# Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/S | | P/E | | Dividend yield-% | | P/B |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **MEUR** | **MEUR** | **2022e** | **2023e** | **2022e** | **2023e** | **2022e** | **2023e** | **2022e** | **2023e** | **2022e** | **2023e** | **2022e** |
| Amdocs Ltd | 9941 | 9773 | 12.2 | 11.3 | 9.6 | 9.1 | 2.1 | 2.0 | 15.4 | 13.7 | 1.9 | 2.0 | 2.8 |
| CSG Systems International Inc | 1787 | 2041 | 12.4 | 11.3 | 9.2 | 8.5 | 2.0 | 1.9 | 15.5 | 14.4 | | | |
| Comarch SA | 336 | 277 | 7.2 | 7.2 | 4.7 | 4.7 | 0.7 | 0.7 | 10.1 | 9.5 | 2.3 | 2.5 | 1.0 |
| Sterlite Technologies Ltd | 875 | 1253 | 23.1 | 18.2 | 13.4 | 11.1 | 1.7 | 1.4 | 39.2 | 25.2 | 1.4 | 1.3 | 3.1 |
| **Tecnotree (Inderes)** | **167** | **154** | **9.1** | **7.6** | **7.5** | **6.2** | **2.2** | **1.9** | **13.3** | **11.9** | **0.0** | **0.0** | **2.1** |
| **Average** | | | **13.7** | **12.0** | **9.2** | **8.3** | **1.6** | **1.5** | **20.0** | **15.7** | **1.9** | **1.9** | **2.3** |
| **Median** | | | **12.3** | **11.3** | **9.4** | **8.8** | **1.8** | **1.6** | **15.5** | **14.0** | **1.9** | **2.0** | **2.8** |
| ***Diff-% to median*** | | | ***-26%*** | ***-33%*** | ***-20%*** | ***-30%*** | ***21%*** | ***16%*** | ***-14%*** | ***-15%*** | ***-100%*** | ***-100%*** | ***-26%*** |

Source: Refinitiv / Inderes

# Summary

| Income statement | 2019 | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| Revenue | 47.0 | 52.8 | 64.2 | **69.3** | **74.6** |
| EBITDA | 15.4 | 20.3 | 25.3 | **20.6** | **22.5** |
| EBIT | 14.4 | 18.6 | 23.7 | **16.9** | **18.3** |
| PTP | 11.8 | 15.9 | 21.5 | **16.8** | **17.5** |
| Net Income | 7.7 | 13.6 | 18.4 | **12.5** | **14.0** |
| Extraordinary items | 1.4 | -0.7 | 0.0 | **0.0** | **0.0** |

| Balance sheet | 2019 | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| Balance sheet total | 36.8 | 50.6 | 79.3 | **92.6** | **107.4** |
| Equity capital | 3.6 | 19.9 | 67.7 | **80.2** | **94.3** |
| Goodwill | 0.0 | 0.0 | 0.0 | **0.0** | **0.0** |
| Net debt | 10.6 | 5.4 | -17.6 | **-12.8** | **-27.7** |

| Cash flow | 2019 | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| EBITDA | 15.4 | 20.3 | 25.3 | **20.6** | **22.5** |
| Change in working capital | -6.6 | -8.1 | -15.5 | **-14.3** | **3.3** |
| Operating cash flow | 4.2 | 12.9 | 6.3 | **2.0** | **22.2** |
| CAPEX | -4.8 | -3.6 | -7.3 | **-6.7** | **-6.7** |
| Free cash flow | 2.8 | 5.8 | -4.7 | **-4.7** | **15.5** |

| Valuation multiples | 2019 | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| EV/S | 1.1 | 3.7 | 6.9 | **2.2** | **1.9** |
| EV/EBITDA (adj.) | 3.4 | 9.7 | 17.5 | **7.5** | **6.2** |
| EV/EBIT (adj.) | 4.1 | 10.2 | 18.7 | **9.1** | **7.6** |
| P/E (adj.) | 6.0 | 13.6 | 25.0 | **13.3** | **11.9** |
| P/B | 11.7 | 9.7 | 6.8 | **2.1** | **1.8** |
| Dividend-% | 0.0 % | 0.0 % | 0.0 % | **0.0 %** | **0.0 %** |

Source: Inderes

| Per share data | 2019 | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| EPS (reported) | 0.03 | 0.05 | 0.06 | **0.04** | **0.05** |
| EPS (adj.) | 0.03 | 0.05 | 0.06 | **0.04** | **0.05** |
| OCF / share | 0.02 | 0.05 | 0.02 | **0.01** | **0.07** |
| FCF / share | 0.01 | 0.02 | -0.01 | **-0.02** | **0.05** |
| Book value / share | 0.01 | 0.07 | 0.22 | **0.26** | **0.30** |
| Dividend / share | 0.00 | 0.00 | 0.00 | **0.00** | **0.00** |

| Growth and profitability | 2019 | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| Revenue growth-% | 12% | 12% | 22% | **8%** | **8%** |
| EBITDA growth-% | 161% | 32% | 24% | **-18%** | **9%** |
| EBIT (adj.) growth-% | 120% | 48% | 23% | **-29%** | **9%** |
| EPS (adj.) growth-% | -3598% | 82% | 14% | **-31%** | **12%** |
| EBITDA-% | 32.8 % | 38.5 % | 39.4 % | **29.8 %** | **30.2 %** |
| EBIT (adj.)-% | 27.7 % | 36.6 % | 36.9 % | **24.3 %** | **24.5 %** |
| EBIT-% | 30.6 % | 35.2 % | 36.9 % | **24.3 %** | **24.5 %** |
| ROE-% | -472.4 % | 116.2 % | 42.0 % | **16.9 %** | **16.1 %** |
| ROI-% | 102.3 % | 73.1 % | 46.8 % | **22.8 %** | **21.0 %** |
| Equity ratio | 9.9 % | 39.3 % | 85.4 % | **86.6 %** | **87.8 %** |
| Gearing | 292.2 % | 27.1 % | -25.9 % | **-16.0 %** | **-29.3 %** |

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Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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## Recommendation history (>12 mo)

| Date | Recommendation | Target price | Share price |
|---|---|---|---|
| 3/30/2021 | Buy | 0.68 € | 0.56 € |
| 4/30/2021 | Buy | 0.92 € | 0.77 € |
| 5/31/2021 | Buy | 1.00 € | 0.86 € |
| 8/13/2021 | Accumulate | 1.54 € | 1.39 € |
| 10/12/2021 | Buy | 1.54 € | 1.14 € |
| 11/1/2021 | Accumulate | 1.70 € | 1.52 € |
| 12/3/2021 | Buy | 1.70 € | 1.29 € |
| 2/28/2022 | Buy | 1.50 € | 1.21 € |
| 5/2/2022 | Buy | 1.10 € | 0.92 € |
| *Analyst changed* | | | |
| 8/5/2022 | Accumulate | 0.80 € | 0.69 € |
| 9/15/2022 | Accumulate | 0.65 € | 0.54 € |

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